THE FREEMAN

IDEAS ON LIBERTY

The Political Economy of the U.S. Constitution

A Visit to South Africa

Goodbye, Mr. Chips

Freedom in the Dock

FEBRUARY 1987

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN

IDEAS ON LIBERTY

1986

12 issues in one bound volume

Attractively sewn in a single volume with hard cover, the twelve issues from January through December 1986—480 pages, fully indexed for handy reference to the latest literature on freedom. More than 75 feature articles on topics such as agriculture, economic development, education, government regulation, labor, money, private property, prices and economic calculation, and international trade. Reviews of more than two dozen books.

Only $7.50 each

Note: This is the first in the series of bound volumes for the current larger size *Freeman.* Bound volumes for the digest-sized *Freeman,* 1969 through 1985, are also available for $7.50 per volume.

FEE pays all postage on prepaid orders.

Order from:

The Foundation for Economic Education
Irvington-on-Hudson, New York 10533

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

CONTENTS
FEBRUARY
1987
VOL. 37
NO. 2

44 **Goodbye, Mr. Chips: U.S. Creates a High-Tech OPEC**
Michael Becker
A new government-enforced cartel will destroy competition in the semiconductor industry.

46 **A Visit to South Africa**
John Hospers
South Africa must have economic freedom—and prosperity—to assure its peaceful survival.

55 **Social Theorists See Groups, Not People**
Kenneth McDonald
Government transfer benefits seem to have little effect on income distribution.

57 **The Worst Polluters**
John K. Williams
Compelling evidence that environmental problems are not market-created phenomena.

59 **The Political Economy of the U.S. Constitution**
Dwight R. Lee
Reflections on the political and economic wisdom of our Founding Fathers.

70 **Freedom in the Dock**
Howard Baetjer Jr.
A spirited defense of *laissez-faire* capitalism.

72 **The Politics of Deficit Spending**
Hans F. Sennholz
Unbalanced budgets sanction wasteful expenditures, political "pork barreling," and ever-increasing mountains of debt.

78 **A Reviewer's Notebook**
John Chamberlain
A review of "The Capitalist Revolution: Fifty Propositions About Prosperity, Equality and Liberty" by Peter Berger.

79 **Other Books**
"Will It Liberate? Liberation Theology and the Liberal Society" by Michael Novak.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
President of the Board: Robert D. Love
Vice-President of Operations: Robert G. Anderson

Senior Editors: Beth A. Hoffman
Brian Summers

Editorial Adviser: Paul L. Poirot
Book Review Editor: Edmund A. Opitz
Contributing Editors: Howard Baetjer Jr.
Bettina Bien Greaves
Gregory F. Rehmke

Production: Laurel A. Mascola

The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Bruce M. Evans, chairman; Thomas C. Stevens, vice-chairman; Joseph E. Coberly, Jr., vice-president; Don L. Foote, secretary; Lovett C. Peters, treasurer.

The costs of Foundation projects and services are met through donations. Donations are invited in any amount. Subscriptions to *The Freeman* are available to any interested person in the United States for the asking. Single copies $1.00; 10 or more, 50 cents each. For foreign delivery, a donation of $10.00 a year is required to cover direct mailing costs.

Copyright © 1987 by The Foundation for Economic Education, Inc. Printed in U.S.A. Permission is granted to reprint any article in this issue, except "The Politics of Deficit Spending," provided appropriate credit is given and two copies of the reprinted material are sent to The Foundation.

Bound volumes of *The Freeman* are available from the Foundation for calendar years 1969 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

The Freeman considers unsolicited editorial submissions, but they must be accompanied by a stamped, self-addressed envelope. Our author's guide is available on request.

PERSPECTIVE

Carl Menger

Eugen von Boehm-Bawerk

February Birthdays

Two men, both born in February, helped to make the modern market economy possible by explaining how the market functions—Carl Menger and Eugen von Boehm-Bawerk.

Carl Menger, born in the Austro-Hungarian Empire on February 23, 1840, bridged the gap between the Age of Monarchy and the Age of Liberalism. His *Principles of Economics* heralded a new approach to economics which lent support to the philosophy of limited government and individual freedom. For Menger, the individual was at the center of the economy. Economic values start with the wants and wishes of individuals. Entrepreneurs look to the ideas, values, and actions of consumers when deciding what, where, when, and how to produce. Carl Menger's theories lay the groundwork for the "Austrian School of economics" and for the modern defense of free markets.

Eugen von Boehm-Bawerk, born on February 12, 1851, also in the Austro-Hungarian Empire, followed in the Mengerian tradition. He was well known among his contemporaries for serving three stints as his government's Minister of Finance, 1895, 1897, and 1900-1904. However, his more lasting fame stems from his scholarly contributions to economic theory and to his explanation of the importance of capital goods, capital savings, and capital investments, all of which depend on the protection of private property and a market economy.

Menger and Boehm-Bawerk explained how people cooperate voluntarily to solve complicated problems. When people are free, they are

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

remarkably ingenious, innovative, resourceful, and cooperative. Given free markets and free market prices, they provide well for themselves and others. People need no government directives to make arrangements for obtaining needed resources, transporting them over vast distances, and transforming them into the goods and services consumers want. Menger and Boehm-Bawerk explained why freedom works.

—BBG

Rare Species Protected by Invisible Hand

Where can one find thriving populations of the following endangered species: Indian blackbuck, Sub-Saharan beisa oryx, Japanese sika deer, South African white-tailed gnus, Armenian red sheep, Moroccan aoudad, Nile lechwe, and Persian gazelles? The answer, according to *Sports Illustrated* (September 8, 1986): the hill country of Texas. On about 370 ranches, exotic species are raised for conservation purposes, for aesthetic reasons, and as game for hunters. A 1984 census counted 120,201 animals in 59 different species from all over the globe. Why are they doing so well in Texas though threatened in their homelands? Because in Texas, they are private property.

Paradoxically, where animals are privately owned and unprotected by law, they are often much more secure than when they are owned "by everyone" and in the care of government wildlife services. The paradox is not a matter of good and bad intentions or people, but of good and bad systems, of incentives to conserve or to despoil.

Under common ownership—where no one really owns at all—there is an incentive to get what one can before someone else gets it first. Hence resources tend to be depleted; animals are slaughtered indiscriminately. Government regulation often fails because wildlife officials have too little stake in doing their jobs diligently. Frequently they succumb to the temptation of payoffs from poachers. Many African wildlife services are said to be riddled with corruption, with officials sometimes killing the animals themselves for the black market in horn and ivory.

Private owners, by contrast, have strong incentives to husband their resources. Since they reap the financial (and aesthetic) benefits of conservation and long-term planning, they conserve and plan carefully. The game herds are an important source of present and future income to hill-country ranchers, hence they carefully regulate the hunting on their lands. Only "bachelors" or aging males past their breeding years are taken as trophies, and the herds thrive.

The incentive structures of private ownership are crucial to conservation. The greater kudu and the beisa oryx, not to mention the deer and the antelope, play more securely at home on the private range.

—HB

Nothing To Do

In La Libertad, Mexico, employees at the state-owned sugar mill report to work every morning, sit around all day doing nothing, and then go home. But they still get paid.

The reason they have nothing to do is that the mill is officially closed—the government's own price controls on sugar have rendered the mill unprofitable (*The Wall Street Journal*, October 13, 1986). But why are the workers still there? The government also has a policy of steep severance payments—it would cost too much to let the workers go. So the workers play cards, look out the windows, and wonder why their nation is so poor. Such is the tragedy of socialism.

—BJS

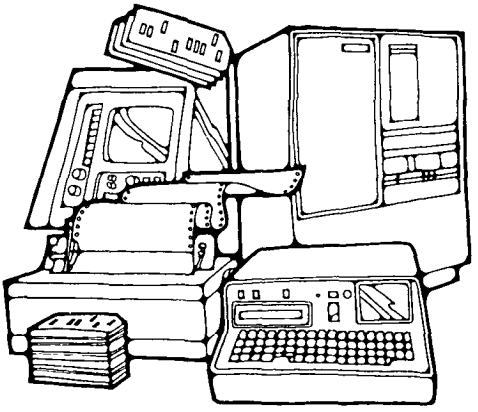
Alderbrook Seminar

FEE's annual Northwest seminar will be held April 10-12 at the Alderbrook Inn on beautiful Hood Canal in Washington State. Dr. Stuart Pritchard is organizing the program. Speakers will include Dr. John Williams (just returning from Australia), Howard Baetjer Jr., and Greg Rehmke. For more information contact Dr. Pritchard at P.O. Box 4101, Tumwater, WA 98501, (206) 352-4884, or contact us at FEE.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Goodbye, Mr. Chips: U.S. Creates a High-Tech OPEC

by Michael Becker



Playing a role usually reserved for Arab oil sheiks, the U.S. government recently created its own high-tech OPEC in the semiconductor industry. As a result, consumers will likely pay hundreds of millions of dollars more for home computers, videocassette recorders, microwave ovens, and other products which use computer chips.

The new government-enforced cartel results from a recent agreement on computer chip trade between the U.S. and Japan. The agreement, in effect, represents the Reagan administration's attempt to respond to Congressional pressure to "do something" about America's negative balance of trade figures. Egged on by the Commerce Department, an agreement has been produced which can only hurt American consumers, workers, and chip users.

The agreement has three major provisions. The two governments agreed to fix minimum prices for chips, assign market quotas, and guarantee that the Japanese would not undercut the agreement with sales in third countries. For those acquainted with OPEC, all of this should sound familiar. Price increases, market shares, concerns about "cheating" and being undercut through third countries—this is the jargon of a cartel.

The agreement already is causing chaos in the chip market. U.S. chip users, who have come to expect declining prices, have seen prices of some chips double and triple since the agreement. Buyers faced with higher prices are cutting back on purchases. And as is often the case when government intervenes in the free market, the agreement will have several unintended consequences—consequences now beginning to show up.

One of these is reduced international competitiveness for American companies which use chips, such as computer and electronics manufacturers. American firms faced with higher domestic prices will relocate in other countries. Immediately following the agreement, Hong Kong and Singapore were described as "mob scenes" as U.S. firms attempted to find manufacturing space overseas to avoid the premium. This will mean a loss of American jobs.

Less visible will be the jobs lost in American firms who find it impractical to move overseas, but will be at a competitive price disadvantage against foreign companies with access to cheaper chips. This disadvantage will mean fewer sales; fewer sales mean fewer jobs.

In addition to these direct costs—higher prices, fewer jobs—the agreement has produced a variety of other unintended consequences. First, it will prove difficult to enforce. South Korea, for example, is not a party to the agreement, and South Korean manufacturers can undercut the cartel's price. The Japanese

Michael Becker is a policy analyst with Citizens for a Sound Economy. He is also a research fellow at the Center for the Study of Market Processes at George Mason University.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

companies themselves have been accused of violating the agreement by "dumping" chips in third countries. It has also proved quite easy to attach chips to circuit boards overseas and then import them duty free. After all, the restrictions are on chips, not circuit boards.

The agreement has also produced a black market in computer chips—a black market that some estimate to be a $1 billion-a-year business. Chip smuggling already is so rampant that domestic chip distributors on the spot market are finding that it is necessary to purchase smuggled chips to stay in business. The next stage of this game is now being played as the government sends out customs agents to "crack down" on illegally imported inexpensive chips.

When the agreement is circumvented, American consumers benefit. The danger is that the agreement's unintended consequences will simply lead to more protectionism.

The U.S. government has started down a course which will require more government intervention to deal with the consequences of the chip agreement. While the chaos in the industry may not reach consumers, higher prices will. Under the original terms of the agreement, for example, the price of imported Japanese 256K memory chips doubled from around $2.40 to $5.00. Consumer products which use chips—personal computers, VCRs, calculators, and home appliances—will cost more. The price of an average personal computer could rise by as much as $45, experts believe.

The chip agreement was premised on charges raised in 1985 that Japanese chip producers were engaging in predatory pricing, that is "dumping" chips into the U.S. for less than it cost to produce them. The U.S. International Trade Commission (ITC) investigation which followed produced little or no evidence to prove this. Japanese 256K memory chips, for example, prior to the agreement sold for $2.60 in the U.S. compared to $1.70 in Japan. Prices for Japanese chips overall were *higher* in the U.S. than in Japan. Despite this, the ITC simply inferred that because prices were dropping and U.S. firms were losing business, the Japanese were guilty.

The more plausible reasons for the drop in chip prices—declining demand and the obsolescence of some chips—were ignored. Also ignored was another factor which contributes to lower prices for chips: efficiency. The semiconductor industry has a "learning curve" which results in falling unit costs as producers accumulate experience in producing chips. The learning curve gives companies an incentive to price low and generate a high sales volume in order to "learn" how to produce chips more cheaply in the future. This price-cutting incentive has in fact been one of the driving forces behind the sharp price decreases and innovation which have characterized the industry.

Under the terms of the agreement, however, Japanese companies must price above the bureaucratically determined "fair price." Attempts to price low in order to take advantage of the learning curve are likely to be interpreted as predatory pricing by government regulators. As a result, this beneficial practice will be curtailed.

Essentially, the ITC and Commerce Department have declared illegal the very practices which have produced the high level of growth and innovation in the industry. In the long run, these new protectionist measures can only destroy the competition which has made the semiconductor industry such a dynamic and productive economic force. The industry and consumers can do without a government-enforced high-tech cartel. One OPEC is bad enough. □

Trade and Productivity

IDEAS ON LIBERTY

The rule to remember is that what hurts consumers hurts business, and what hurts business hurts proficiency. After all, what is proficiency? Simply the power to produce. The power to produce is best determined by free trade, and not by bureaucratic decree. The power to produce is a corollary of the power to trade. Thus the more trade the more production, and the more production the more trade.

—WILLIAM H. PETERSON

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

A Visit to South Africa

by John Hospers

The media create a misleading impression of life in South Africa. It's not that what they report is untrue; it is what they decline to report that distorts the picture.

I spent part of July and all of August 1986 in South Africa, under the auspices of the Free Market Foundation of South Africa, giving lectures and seminars at a dozen universities in Pretoria, Johannesburg, Cape Town, Stellenbosch, Durban, and Pietermaritzburg, as well as Namibia (Southwest Africa) and Umtata (in the "independent republic" of Transkei). I spoke with many people of various races and walks of life, and visited numerous areas, from rural black school districts to the private palace of the Anglo-American Oil Company. I walked the streets of cities for hours, meeting people and talking with them, trying to capture the ambience of each place and to sort out what were the sources of strife as well as of harmony, who was to blame for what, and how the problems could be solved or ameliorated.

Economic Inequality

To the outside world, the key word to describe what is wrong in South Africa is *apartheid,* which means simply that the races live apart. But apartheid by itself has very little to do with the current unrest in South Africa. If members of various races live apart by choice, little can be said against it; it is *forcibly* living apart that is objectionable. This still occurs in South Africa, notably in suburban enclaves like Soweto near Johannesburg: blacks work in Johannesburg by day but must return to their dwellings in Soweto at night. Yet a great deal of apartheid has been changed since my earlier visit in 1983.

- A few years ago, theaters, some shops, and all restaurants were segregated. Now they are integrated, and few people seem to think anything of it.
- The mixed-marriage laws and pass laws have been repealed.
- Black families live in apartments in Johannesburg and other cities alongside whites, going to the same shopping places and films and living their lives much as whites do. When you walk the streets of the posh northern suburbs of Johannesburg, you see almost as many blacks as whites, going to work and entering and leaving their homes. This is strictly illegal, but nothing is done about it.
- Formerly the government built tract-housing for black settlements and rented them to black families. Now those families for the most part have 99-year leases, and for all practical purposes the homes belong to them. The result is a great increase in beautification—lawns, gardens, trees and shrubbery, newly painted houses—which always accompanies private ownership.

Yet the legalization of mixed marriages, integration of public places, and the abolition of the pass laws have had a much less positive ef-

John Hospers is a professor of philosophy at the University of Southern California, Los Angeles. He is the author of numerous books, several anthologies, and more than one hundred essays in journals and encyclopedias.

This article recounts experiences from Professor Hospers' six-week stay in South Africa last summer.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

fect than the white population assumed they would. This, I think, is because the basic cause of unrest has not been touched by these measures. Blacks do not give first priority to social relations with whites. What affects them most is the unfairness of the laws and regulations which do not permit them to compete economically on an equal basis with whites or even with Indians. The desire to rise in life, and to provide adequate support for one's family, is constantly frustrated by the legal system. If apartheid were continued but economic opportunities for the races were equal, the current unrest would largely subside. But blacks are held back by government controls:

"If a white person wants to open a fish and chip shop in a white area, all he has to do is fill in a form, find a zoned business site, and sign a lease with the landlord. If he complies with health regulations, he is entitled to sell fish and chips. No one must approve of him as a person; no questions are asked about his nationality, competence, resources, or language. No bureaucrat decides if there is adequate 'need and desirability' for such a shop. Simply because he is a white in a white area, he is entitled as a right to run a fish and chip shop or almost any other business or industry.

"For a black, the situation is very different. Before he can open a fish and chip shop in Soweto, he has to ask an official for a site. The official may or may not grant his request, for reasons which he need not disclose. He may say "yes" because he likes the applicant, or is related to him, or because he has received a sufficiently generous bribe. He may say "no" for equally subjective reasons. Once the site has been granted, the potential entrepreneur has to apply to another official for a license. This may or may not be issued, for similar reasons. Then on to the health officials. And the building inspectors . . . until, many months and hundreds of rands later, he might be turned down for unspecified reasons.

"South African blacks today have no experience with laws which are equally applicable to all regardless of sex, creed, or color. What they experience now, from day to day, is arbitrary rule by men, a system which by its nature is rife with both real and suspected corruption. No self-respecting human being can be subjected to such a system without feeling frustrated or angry." (Leon Louw and Frances Kendall, *South Africa: The Solution,* pp. 61-62. Amagi Publications Ltd., 1986).

An end to such discriminatory legislation would solve a large part of South Africa's problems in one stroke. Whether the government is at the moment prepared to do this is doubtful; but circumstances may yet force its hand.

The result would be beneficial to whites as well, for it would remove the enormous tax burden of caring for blacks at government expense. Six million taxpayers in a total population of 32 million sustain the entire remainder in a huge welfare state. South Africa is a ¾ socialist state, providing (however inadequately) for the daily needs of black housing, health, and education, at an enormous and ever-increasing cost. The facilities are far from equal, of course: black education is markedly inferior to white, in spite of vast increases of money spent on it—an increase of 2600 per cent for next year alone, I was told in Pretoria, enough to bankrupt the national treasury in a few years. (There are, of course, some black taxpayers as well, and the 12 per cent sales tax, up from 6 per cent three years ago, is imposed equally on everyone who buys goods.) Many urban blacks, however, are tired of being "cared for"—they want to make it on their own. What they suffer from is *black socialism* —being treated like children who cannot take care of themselves.

The irony is that blacks tend to associate the present system with capitalism, and therefore condemn it, often embracing socialism as the system that will cure their ills—little realizing that it is socialism that they have been suffering from all along, and that capitalism is their only means of rising out of their present situation, creating industries and jobs and allowing persons to rise to the limit of their abilities.

The government educational system is enormously frustrating to both whites and blacks. A school building is built in a black development; soon the windows are broken and the building vandalized. The government rebuilds it, and the same thing happens again. How often are the taxpayers of South Africa supposed to repeat this procedure? Whites are inclined to

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

argue, "If that's what they want to do, let them stay in their own mess."

But why do blacks do this? Because they see education as largely irrelevant to their needs. If at the end of schooling you can't get a decent job, the argument seems to be what's the use of education? Then one might as well destroy the buildings which are the symbols of what is being forced upon them. These actions are a response to black socialism, to which they have been subjected by the white government; but socialism is not the way they identify it. They identify it as a manifestation of white capitalism. Therein lies the tragedy.

The Clash of Cultures

The outside world pictures the blacks of South Africa as one unified force, opposed to whites and Indians. In fact, however, blacks are deeply divided along tribal lines. The Zulu dislikes and is suspicious of the Xhosa, the Xhosa dislikes the bushman, and so on, far more than any of them fears or dislikes the whites. Were it not for police intervention, there would be tribal wars and massacres as there have been for thousands of years.

Most blacks are quite non-political; they are much more interested in meeting their daily needs than in political action. They will not rise up against the whites unless they can be whipped into a frenzy by outside agitators. They are inclined to be easy-going, fairly passive, "mellow"—quite unlike the "edginess" experienced between the races in America. Violence is usually initiated by teenagers and children, whose parents are ashamed for them and apologize in the strongest terms for their behavior.

Most blacks who work for whites tend to be content with their lot. They are employed, and at much higher wages than they could obtain elsewhere. They will defend the whites against blacks of other tribes, toward whom they are openly hostile.

I was a guest at a dinner at which a black man was seated, and the black cook, after inquiring where he was from and what tribe he belonged to, refused to serve him at table. She continued in this refusal even though her job was on the line. She considered serving whites to be her proper place, but she would have no truck with blacks of other tribes. She was somewhat reminiscent of the housekeepers in the old American South, as in *Gone With the Wind*.

One might say, of course, that blacks should not be in such a servile position. But economic non-discrimination would be the cure for that: as opportunities increased, fewer would accept servile jobs. But at present, with limited training and job opportunities (thanks to black socialism), the arrangement appears to be quite acceptable, indeed advantageous, to both blacks and whites.

Most rural blacks live much as they have lived for centuries, their tribal customs unchanged, the principal change in their lives being white medicine, modern homes, and the sale of their crops and wares to white customers. At the other extreme, a small percentage of blacks have become quite Westernized; these are the ones we see on American television. Between these extremes are the semi-urbanized blacks, with one foot in each culture—a background of tribal customs which goes with them constantly even while they are attempting to compete with white laborers in the job market. The lot of this third group is the most painful and trying—somewhat Westernized, yet unable to compete successfully in the white man's world.

Given a free enterprise economy, many of them would become able entrepreneurs. Some of them already are, in spite of the system: I met black landscapers and construction men who hired other blacks to lay tile and build swimming pools and maintain lawns and gardens, and these were affluent by any standard. These, of course, were the rare exceptions—and they had no use for political agitation. Most blacks, however, are still victims of the system, unable to make a good life for themselves. They care about their own chances of achieving a decent living much more than having a vote: When I asked "What would you rather have, the right to vote or an extra thousand rand a year?" the answer was always the same, and perfectly obvious.

The degree of tribalism, and the strength of tribal customs, are quite unfathomed in the West, and are never shown on American televi-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

sion, although tribalism is the most potent force in Africa. The following are only a few examples of many (purposely diverse in character), told to me by white university professors, white missionaries and social workers, as well as by urban blacks.

- A man disappears from his home in a black settlement. The opposing tribesman who has killed him conceals his body in the refrigerator and each day he cuts off a piece and eats it. (Often he eats only the heart and the liver.) This is a common practice called "muti."
- A man comes home to find himself suddenly accused by other tribesmen of theft or adultery (whether truly or falsely). He is pummeled to death or fatally stabbed on the spot, while others dance over his corpse. Life is very cheap in Africa.
- A girl has had two sons, strong healthy children. A third son is born, but is dead within a few days. "What happened?" asks a white missionary. "He just died." The next year another son is born. "This time I will take care of him," says the missionary, and does so till the child is six months old, at which time the missionary has to leave, and places the child carefully in his mother's hands. When the missionary returns a few days later the new son is dead, again without explanation. The reason turns out to be that a third son is a liability to a family, and is killed. The first son takes over from his father; the second son is there to do so if something happens to the first son; but the third son if he later marries must present a dowry (unlike India, the dowry is contributed by the husband's family), and this often breaks the family financially. It is easier just to kill him.
- Most black education is performed by rote: a teacher simply reads out of a textbook. One geography teacher decides to explain the text instead of just reading it. But his pupils still fail the matriculation test at the end of the term. The students get together and decide that it's the teacher's fault for not going strictly by the text. They take the teacher out and kill him.
- At the home where I stayed in Johannesburg, the black caretaker was quietly reliable, like most African blacks more interested in tending the house than in the future of South Africa. His predecessor in the job, however, had not been so fortunate: blacks from another tribe had seen him crossing a bridge one night, tied him up, lit a fire under him, and burned him to death.

White vs. Black?

Hundreds of tales like this are well known to both whites and blacks. They make many whites fear integration in the cities: with such tribal savagery so close to the surface, how could we but fear for our children going out at night? "Of course there has to be apartheid." Yet the victims of these brutalities are almost always blacks, not whites. And people with a long oral tradition do not part in a few years with the thousand-year-old habits and customs of their ancestors.

The white man's world is still strange and alien to those who live in the bush. "Let me take you to any black village," one lady said to me, "and I guarantee you will be a hero—as long as you can keep telling them stories about the world outside. They will revere you and defend you, and for years afterward they will tell tales about their great honor in having a white visitor from another land."

There is, indeed, a great reservoir of good will between the races in South Africa—much more than in the United States. I sensed this in the stories, on the streets, in endless conversations. Most blacks do not consider the white man their enemy. Some whites consider blacks to be slow and lazy—and of course some are; but a much more plausible conclusion is that the black is more deliberate, with less of a sense of urgency. He can remember incredibly detailed instructions without writing them down (the long oral tradition facilitates this).

Ten years ago all truck drivers in South Africa were white; today they are virtually all black, and doing a better job of it. There are many black trade unions, black mining engineers, black doctors and dentists. More South African blacks own cars than there are privately owned cars in the Soviet Union. Even so, the African black is still new to the technological civilization that the whites have built around him: South Africa's incomparable roads and skyscrapers, its mining and processing tech-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

nology, its system of distribution and supply, are the equal of anything in the West. Blacks have been the *beneficiaries* of this civilization in the form of a higher standard of living and medical care than they would have had otherwise, but thus far they have not been sufficiently permitted to *participate* in it.

What of those who do not want to participate in it, but to remain with their tribal customs in the bush? One is surely inclined to say, "Then they should not be forced to be a part of the white man's civilization." They should not be forced to adapt to the white man's world if they choose not to. But there is one touchy problem here: what part should the white man's law, derived from Europe, play in the black man's culture? To a large extent the white man's law lets tribal custom go its way without interference. Yet in known cases of ritual murder or human sacrifice, shouldn't the perpetrators of such acts be arrested and charged with murder?

If the law does not intervene, the world will say that white law enforcers do not care about human lives as long as they are the lives of blacks. If the law does intervene, headlines will scream round the world, "White policemen molest blacks in South Africa." Whether the law takes the attitude of "let it be" to tribal customs, or whether it attempts to intervene at least in the clearest cases of tribal savagery, either way it will be the loser in world opinion.

The Solution?

Perhaps the greatest mistake in South African history was the creation of one nation, the Union of South Africa. With such deep cultural and moral divisions, how could one nation ever be generated from such a mix? Those who came to America came largely from Europe, and shared a European culture and morality. But those who came together in Africa had no such common bond.

What then is the solution? A very plausible one has been proposed by Leon Louw and his wife Frances Kendall in their book *South Africa: The Solution*, which is now the No. 1 best seller in South Africa and has been read by cabinet ministers and referred to by the Prime Minister himself, and is creating a great ferment in the entire country. Many whites who had planned to leave South Africa have stayed because of the book. They now see hope in the book's proposed *canton* system, like the one Switzerland has had for eight centuries.

SATOUR

Aerial view of Durban City, Natal.

The nation would be subdivided into semi-autonomous states or provinces, divided along roughly tribal boundaries. There would be a very limited central government concerned only with a few matters such as currency and national defense, but the laws would vary from province to province. Some whites, of course, would have to move if they didn't like the laws of the largely black province they were in, and the same with blacks. But moving about is preferable to civil war.

Provinces with a free enterprise economy would soon be more prosperous than socialist provinces that might exist nearby, and would attract more people toward them. Meanwhile a national constitution would prohibit discrimination on grounds of race, color, gender, or religion, would ensure a universal franchise, would protect property rights and civil liberties, and guarantee freedom of movement and association.

"One person, one vote" is chanted by many Westerners who know little about South Africa. Those in the bush do not know what a vote is. For those who do, it means going along with what the chief says: a black lady I spoke with had been wronged by her chief, but kept insisting "You can't go against your chief," indicating that I simply did not understand. Many whites fear that with a five-to-one majority blacks will vote for anyone who promises them the advantages that white civilization has achieved, without knowing yet how to sustain

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

it. They fear a future of "one man, one vote, *once*."

> What most whites fear is that, given unlimited and centralised political power of the kind that whites have held and abused, blacks will evict whites from their homes, nationalise their businesses and loot their property in an orgy of redistribution and revenge. But there is a good deal of evidence to suggest that this fear is more imagined than real.
>
> True, there are many articulate political leaders who speak openly about the day of reckoning when AZAPO would restore the land to its "original owners," and the ANC to "those who work it" in terms of the Freedom Charter. A handful would like to see a fully-fledged Marxist dictatorship with no private property at all. But the majority of blacks seem to want no more than the removal of all barriers to black advancement and enfranchisement. . . .
>
> None of the four independent homelands have adopted the policies whites most fear. They have all repealed all race laws, but none have espoused Marxism. Bophuthatswana and Ciskei have recently taken major steps to free their economies. . . . (Louw and Kendall, *South Africa: The Solution*, pp. 168-9.)

One advantage of Louw and Kendall's solution is that economic freedom would come first —hopefully at once; and then, when there are a number of prosperous black entrepreneurs, they will not vote to Sovietize South Africa, for by that time they will have a stake in their country and will have too much to lose.

Threats from the Outside

White South Africans have watched closely the fate of the "developing nations" of Africa. They have seen one nation after another turned into a one-party state—dictatorships in which the fruits of white civilization were promised to all, property confiscated, billions going into the dictator's Swiss bank account, the rest redistributed in a vast welfare scheme in which there was no "welfare" because without incentives there soon was nothing left to distribute.

Successive dictatorships in Uganda, Tanzania, and other central African nations have killed millions of people. Mozambique, once a prosperous nation under Portuguese rule, is now an economic basket case. In the midst of rich natural resources and good soil, hunger and starvation are now rampant, the economy totally destroyed, and hordes of starving families cross the border into South Africa to find food and sanctuary.

Zimbabwe is already in effect a one-party state, whose dictator, Mugabe, is systematically exterminating the minority tribe, the Matabeles. In Zimbabwe today there are no jobs to be had: I talked with several illegal aliens from Zimbabwe who worked as gardeners and small tradesmen in Johannesburg, sending their wages back to Zimbabwe to support a dozen or more family members and relatives.

Refugees from other nations continue to pour into South Africa; even with racial discrimination they can earn many times what they can in their home countries, when they find employment there at all. Without South Africa many of these people literally would starve.

South Africans wonder why the world has a special animosity towards them. Every time there is even a small amount of violence—often genuine but sometimes staged for the benefit of cameramen who have placed themselves in a convenient location—it is highlighted that night on the world's television screens.

When thousands are slaughtered in Uganda or Zaire, no cameramen are there to record it, and it passes almost unnoticed. "If there are no pictures, there's no news"—and thus America knows nothing of Soviet labor camps or Vietnamese "re-education centers," for no one is permitted to come close enough to photograph them.

Yet it is South Africa, still a relatively open society in spite of censorship, that comes in for selective indignation. Perhaps it is because "more is expected" of white people than of black. But is that not itself a form of racism?

Why should nations in the Soviet orbit receive preferential trading conditions while South Africa is punished? Why does Zimbabwe, a police state in which a single comment against the government can result in im-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

prisonment incommunicado for six months or more (we were warned before entering Zimbabwe to think what we wished, but to say nothing), still receive American aid, while sanctions are imposed on South Africa? Racial problems in the United States took centuries to resolve, and are not entirely resolved to this day, yet South Africa is expected to solve its problems by tomorrow morning.

A professor from the Netherlands gave a series of lectures at the University of the Witwatersrand when I was also lecturing there, and was notified by his home university that because he had spoken in South Africa his academic tenure would be broken. South Africans cannot get passports to many European nations because of its "racist policies," but dignitaries from other nations which are slaughterhouses have no troubles in this regard. "If you impose sanctions," I was asked, "why don't you do it across the board, first to countries that systematically kill all dissidents?"

I spent a week in Namibia, where everyone is officially in favor of independence from South Africa. (Namibia has had no apartheid for ten years, but this has made little difference: only economic opportunity can offer advancement.) Yet more than half the Namibian economy is sustained by transfusions from South Africa.

The Namibian Minister of Transport in Windhoek showed me a huge map projecting his favorite dream: a railroad going from Walvis Bay on the west coast, east through Namibia and Botswana, ending in Zimbabwe: "then we could be independent of South Africa." Unfortunately the building costs of this project would amount to well over a billion rand, and where would such an infusion of capital come from but South Africa, whose G.N.P. is more than that of all the other nations of Africa combined? Similarly, the impressive University of Umtata in the black republic of Transkei, where I gave three lectures, was built entirely courtesy of the South African taxpayers.

Yet South Africans are well aware of international threats. Armed insurgents from Angola continue to harass the residents of northern Namibia, though the influence of SWAPO seems to be on the decline: the Ovambi

Soweto, South Africa.

tribesmen (over 60 per cent of the population of Namibia) don't want their property nationalized, and the word has finally got through that that's what SWAPO is all about. Today an Angolan infiltrator into their midst can figure on a life-expectancy of no more than a week (So I was told in a military briefing in Windhoek to which I was invited, along with French and German diplomats.)

But conditions along the border with Mozambique have not similarly improved. Soviet-financed terrorists continue to make armed raids into South Africa. In the northern province of Venda, the chief fear of native families is not from South Africa but from Mozambique: terrorists capture children in school or on the way home, kidnap them and take them back into Mozambique, and they never are seen again. When the South African army retaliates by raiding terrorist bases in Mozambique, it is excoriated in the international press for venturing outside its borders.

South Africans follow closely the progress of Soviet trouble-making in Africa—the killing of dissidents and minorities (to fan racial hatreds), the slaughter and systematic starvation of innocents, the random imprisonments, and the kidnaping of children, taking them through Dar-es-Salaam to Siberia or North Korea to give them training in terrorist tactics against South Africa.

The African National Congress (ANC) is a divided organization. Some of its members desire only racial equality in South Africa. But the majority—so believe most of those with whom I spoke—do not want any improvement of conditions in South Africa: They want things to get worse, so that the entire social fabric of South Africa will be destroyed in a civil war and a new communist nation founded on the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ashes of the present one. As for Nelson Mandela, the usual view was "if he is released he won't last a week unless he turns to Butholezi" (the moderate Zulu chief, who may be the main hope for South Africa, but is seldom mentioned on American television)—because Tambo (head of the ANC) would not tolerate any competition for his leadership.

If civil war should come, it will be instigated by outsiders bent on the destruction of the entire society (including all races), not from within—this was the verdict of virtually everyone with whom I spoke.

As one surveys the thousands of people walking the streets of Cape Town and Durban and Johannesburg, one finds it difficult to imagine how a black take-over would ever be attempted, or how it could succeed if it were. Here are thousands of black faces expressing no hatred or resentment or malevolence; these are people going about the daily business of life, under conditions which in spite of world headlines are gradually improving. Further improvements, such as deregulation and the abolition of discriminatory legislation, could be initiated tomorrow by act of Parliament. Others, such as satisfactory education for black youths, would take many years to achieve, and probably cannot be achieved at all through the public school system.

Reflecting on all this, I thought of the black shopkeeper in nearby Randburg, with whom I talked often, helpful to a fault, who bore no ill will toward anyone: ten years ago a white customer would have been unlikely to shop at a store serviced by blacks, but no more. I thought of the white plumber I spoke with, who still goes alone to Soweto every working day to install pipes and bathrooms, with no fears for his safety. I thought of the white South African soldiers on leave entering a bar in Durban, not joining other white soldiers from the Transvaal for a drink because they preferred to drink with their black Durban friends.

The world underestimates the residual good will between the races in South Africa, which makes the streets of South Africa safer than those of any large American city. The very existence of this benevolent attitude is difficult to believe by those who are the victims of selective reporting by the American media, but the awareness of it is inescapable once one has tasted everyday life in South Africa as it is actually lived, not as it is contrived by reporters who report only the outbreaks of violence.

The Effects of Sanctions

Many nations have imposed sanctions against South Africa in a show of moral indignation against apartheid. The sanctions are an attempt to punish South African whites; in fact, however, it will punish principally South African blacks. As one foreign company after another pulls out of South Africa, there will be massive unemployment—and who will be the first to be unemployed? The unskilled laborers, of course—and at the moment these are mostly blacks. They are the ones who will suffer the brunt of the foreigners' indignation.

Many foreigners know this, of course, but they appeal to what they think is the will of their constituencies (fanned by selective media coverage). Talk is cheap, and the foreigners will be no worse off because of black poverty in South Africa which their actions will cause. They may even feel a pleasing tinge of moral righteousness for doing what they do—they have spoken their piece, and the consequences will not fall on *them*. The very persons they officially wish to help are the ones who will suffer the most. Many people will starve because of the imposition of sanctions.

Sanctions will also seal the fate of the thousands of blacks who pour into South Africa from the economically depressed nations to the north. They will be sent back to their native countries, since there will be no more jobs for them in South Africa. What will happen to the starving hordes pouring in from Mozambique, who now flee into South Africa for food and sanctuary? After sanctions, they will no longer be able to be absorbed into the South African labor force, and will be forced to return to the nations from which they have fled.

Dr. Christian Barnard of Cape Town, the originator of heart transplant surgery, recently wrote in the *Sunday Times* (Johannesburg, August 3):

> Starvation means more than just pangs in the belly. It is the terrible agony of a body liter-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ally cannibalizing its own tissues as it fights off death. Perhaps you think you've seen it all on television documentaries of famine. Be assured that the reality cannot be captured on film. There is a stink to starvation that doesn't show on a television screen. It assaults the nostrils and revolts the stomach—a smell you can never forget: the stench of obscenity. Never mind all the other uses of the word. Once you see a starving child you know the real meaning of obscenity—a condition which is an affront to all humanity.

It is then that another emotion takes over—anger; a kind of white-hot fury at the conditions which allowed this to happen. There is a need to look for a target—to find something to smash, someone to blame. . . . I feel that anger when I read of churchmen who call for economic sanctions. I try to believe that, like the Roman soldiers who crucified Christ, they know not what they do.

But belief comes hard when you consider that those who ask for the bread to be taken out of the mouths of other people's children know their own will never suffer. No churchman's salary will stop when trade comes to a halt. Priests and prelates, like the lilies of the field, toil not for their cash. It comes to them on a silver plate. And it keeps coming whether the stock market rises or falls. When the sanctions bite, no one will knock on the door to repossess the furniture. The cars in the garage will be safe and the church will not call in the mortgage on the rectory, the manse or the deanery. Bishops will be safe, too. Princes of the church live in palaces where sanctions don't apply. Church walls are thick. Especially high church where they build monuments of dead stone to a living God. It's hard to hear the cries of the unfed when you're inside.

Southern Africa is home to more than 60 million people. A quarter of the population are below the age of 14. Let me spell it out. Sanctions, which is just another word for starvation, will place 15 million children under the threat of famine. Politicians throughout the world have voted for this appalling project, but nobody asked the children . . .

I can offer sanctions-loving churchmen a thought. It is a short step from being the Lord's Anointed to believing oneself God's Mouthpiece, but would the Almighty really risk the life of a single child—just to replace a white Caesar with a black one?

What is needed, of course, is an increase in the number of available jobs; but as long as sanctions are in effect, any such increase will be impossible. Without capitalism (including free trade) a nation cannot enjoy the fruits of capitalism—prosperity. "The fruits we require," wrote Barlow Rand chairman Mike Rosholt in the *Pretoria News* (July 11), "will have to be in the form of a very much larger cake than we have ever been able to produce, even in relatively good economic times, because it will have to fund the reforms already announced to produce a considerable backlog of jobs and to satisfy black demands for a more equitable distribution of national income. All this without permanently damaging the private sector and killing all individual initiative. We shall certainly not produce that larger cake in the recessionary conditions we now face."

The Prospects

What South Africa now needs is economic prosperity, a prosperity that will be impossible as long as sanctions continue. With growing prosperity, an improvement in the lot of the blacks would come, particularly in the wake of deregulation and decentralization—something the government has not proceeded with fast enough, but which the necessities of peaceful survival will increasingly force upon it.

Meanwhile, the future is clouded. With foreign backing, the ANC will be strong enough to plant bombs in the cities and create conditions of terror which will bring all improvements to a halt. With enough foreign assistance, such organizations will in time be able to make South Africa at least as uncomfortable as Northern Ireland. Then there may be enough violence to satisfy even the international media—and the billion or so dollars per year that the Soviet Union spends on the disruption of South Africa may prove to have been well worth the price they have paid to bring it about. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Social Theorists See Groups, Not People

by Kenneth McDonald

The redistribution of income has become such a major activity of modern governments as almost to dominate the political scene. In 1986 transfer payments of one kind or another consumed nearly half of the United States' Federal spending and more than half of Canada's.

In fact the "principle of making equalization payments" is embodied in the Charter of Rights and Freedoms which now is part of Canada's Constitution.

The idea of lessening the disparity between people's incomes appeals naturally to social theorists. The "society" they study is an abstraction to which they impute properties that are both individual and personal.

The assumption is that if people are poor it is not because they are lazy, or incompetent, or lacking in marketable skills, but rather because society has failed them. Consequently it is up to society to remedy the matter; its agent the State must be called in to do the job.

If that theory were still to be tested, governments' preoccupation with applying it could perhaps be understood. Instead it has been tested, and the results are available.

In 1984 Statistics Canada published a pamphlet (*Charting Canadian Incomes, 1951-1981*) which showed that the share of income among population groups has been stable over the three decades 1951 to 1981.

"We have divided the population into five equal groups from lowest to highest income. Each income group represents one-fifth of all families and unattached individuals. We find that the share of income for each group is the same in 1981 as in 1951 when income (including social benefit payments) is considered. The lowest income group, for example, had 4% of income both in 1951 and 1981. This means that although each group's income has increased substantially, there's been no movement toward greater equality between groups."

No doubt social theorists will take the passage in parenthesis as evidence that had it not been for the social benefit payments, the disparity between income groups would have been greater.

They could point, for example, to other tables in the pamphlet which show that social benefits have become increasingly important for the lowest income group and for the elderly.

Between 1951 and 1981, social benefits as a percentage of income in the lowest income group rose from 29 per cent to 57 per cent. Among the unattached elderly, the percentage rose from 47 per cent to 50 per cent; among elderly couples from 26 per cent to 36 per cent. Those percentages are considerable; without the benefits it appears that the lowest group would have fallen further behind.

But wait. These are equalization payments and the object of the exercise was to produce greater equality between the groups. That didn't happen despite the fact that during the same period social benefit payments were raised substantially. In the past 20 years the proportion of Canada's federal government

Mr. McDonald is a free-lance writer and editor living in Toronto.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

spending on social programs has risen from 25 to 42 per cent.

Consequently it's hard to escape the conclusion that if the social benefits had not been there many of the individuals who make up the lowest income group would have worked harder to increase their incomes and put more aside for retirement. Some might have moved up into the next group, others would have worked hard to stay in place.

Similarly at the other levels, where social benefits make up smaller percentages of total income (e.g., increasing from 5 to 9 per cent in the middle group and from 2 to 3 at the top), the fact that they were present was a disincentive to increasing earnings or savings.

In short, government transfer benefits seem to have little effect upon the bell-shaped curve of income distribution.

However, the availability of benefits affects the behavior and attitudes of people, which in turn affect their incomes. The groups are composed of individuals, each of whom is unique, a fact that tends to be overlooked by the theorists who deal in statistics. It's the groups they are concerned with.

Nevertheless the individuals are affected. Assurance of the benefits affects behavior in two ways.

First is the material disincentive mentioned above: a lesser inclination to increase earnings or savings, compounded by a tax burden that is seen as funding the benefits. Second is the moral effect.

Frederic Bastiat wrote that "The law can be an instrument of equalization only as it takes from some persons and gives to other persons. When the law does this, it is an instrument of plunder." (*The Law*)

Recipients of the benefits are beneficiaries of plunder. Consciously or not, and regardless of the differing proportions of income they are obliged to contribute through taxes, they are accepting something that has been taken from someone else.

Sooner or later whole populations are involved. Even people whose incomes are below taxable rates are paying through consumption taxes.

This engenders a sense of entitlement to benefits that no one has any way of relating to what they, as individuals, have contributed. Rich or poor, it is their due. It is also something, if not for nothing, then often for very little.

It is in this divorcement of effort from reward that the danger lies. It is as close to cheating as makes no difference. The cheating may be done by the State but the citizens are party to it.

To illustrate: A friend advised a major oil company about "downsizing" so as to adjust to declining business. He noticed that quite senior people who had accepted early retirement on generous terms, including capital settlements, were being inconvenienced by having to drive their Cadillacs to the local unemployment office in order to draw the benefits they were entitled to for 52 weeks after being "laid off."

The same friend took his lawnmower to the local small engine expert and asked where the expert's assistant was. "Oh! He's off for six months, drawing unemployment insurance." The assistant immigrated to Canada some years ago from Eastern Europe, examined the social security arrangements, and decided that if that was the way Canada set the rules he would be foolish not to play by them. So he uses the six months "lay-off" to work around his house and add to its value, which at the time of writing is about C$285,000.

Now you could say that the former executives of the oil company are not cheating: they are collecting what the law provides. It is the law that is at fault. But they are already compensated, and generously, for their severance. Do they not feel a twinge of conscience? Perhaps not. The State's intrusion has blunted it.

The lesson is drawn more plainly from the former European. He had grown up behind the Iron Curtain, where the State is sole employer, and cheating it is less a moral issue than an ingredient of survival.

These examples reveal the flaw in social theories of redistribution. It rests in their separation of donor from beneficiary, of effort from reward, and in the merging of individuals into groups.

Bastiat had the sense of it when he wrote of persons, of the law taking from some and giving to others. It is when decisions are removed from persons and are made for them collectively that the trouble starts. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Worst Polluters

by John K. Williams

Opponents of the free economy long have asserted that environmental pollution is caused by the market system, and have claimed that any person concerned about the environment must opt for some form of statism.

Unfortunately, most defenders of the market fail to address such criticisms. In fact, many would-be defenders do more harm than good. For example, some defenders respond to environmentalist critics by claiming that the benefits of modern technology and the market "outweigh" environmental costs. Other defenders of the market respond by ridiculing a concern for the environment, implying that environmentalism is a form of human folly. Another response argues that industrial pollutants are minuscule compared to the pollutants nature releases into the environment.

Some of these responses may have limited merit. What is disturbing, however, is the tacit admission by many proponents of the market economy that environmental pollution is, alas, an undesired but somehow inevitable accompaniment of free enterprise.

Hence a simple question: Is pollution a natural result of the capitalist system?

If the free market is responsible for pollution, one might reasonably expect that socialist economies would be characterized by an absence of pollution. The reality, however, is otherwise.

Recent accounts from Poland, for example, paint a picture reminiscent of Dickensian portrayals of the Industrial Revolution. According to the Polish Ecological Club, an informal organization of environmental scientists, chemical pollution in the industrial Katowice region of Southern Poland constitutes a problem of horrendous proportions. Garden soil samples reveal a lead content of up to five hundred times the national limit. Farms near the Lenin Steelworks have been so poisoned with heavy metals that such traditional crops as sugar beets and green vegetables have had to be abandoned. The lead content in salad greens was found to exceed the safe human limit twenty-one times.

Consider the following report on the situation in Cracow:

> Acid rain dissolved so much of the 16th century Sigismund Chapel of Walwel Cathedral that it recently had to be replaced. The chemical used to dissolve gold in the chemistry laboratory is aqua regia . . . a mixture of concentrated hydrochloric and nitric acids. . . . Something not unlike aqua regia falls daily in the Cracow rains, . . . convert[ing] the chapel's original gold roof into soluble chlorides. (Lloyd Timberlake, "Poland—The Most Polluted Country In The World?" *New Scientist,* October 22, 1981)

The situation in the Soviet Union is also grim. Indeed, the lakes and seas of the U.S.S.R. are more polluted than in any capitalist nation. Lake Baikal in Siberia is all but destroyed. The salinity of the Caspian and Aral Seas has risen alarmingly, with much water having been diverted for irrigation and hydroelectric projects. The problem has been compounded by feeder rivers which have been described as "little more than open sewers." (See F. Singleton (ed.), *Environmental Misuse in the Soviet Union* [New York: Praeger Publishers, 1976] and Marshall I. Goldman, *The Spoils of Progress: Environmental Pollution in the Soviet Union* [Cambridge, Mass.: Massachusetts Institute of Technology Press, 1972.])

The Reverend Doctor John K. Williams has been a teacher and is a free-lance writer and lecturer in North Melbourne, Victoria, Australia.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Conditions are no better in communist China. Chinese leader Deng Xiaoping recently conceded that, under Chairman Mao, environmental devastation was rampant, with many forests being reduced to deserts, over eight million acres of the north Chinese plain being made alkaline and thus unproductive, and pollution of rivers so hampering fish migration that fish for a time all but disappeared from the national diet. (J. Erikson, "Candour From China," *The Australian,* March 3, 1984; compare *China News Analysis,* October 6, 1978, December 1, 1978, February 16, 1979.)

Socialist reality shatters the fantasy that environmental problems in general, and pollution in particular, are market-created phenomena.

Property Rights

The Industrial Revolution led to widespread pollution in the form of factory smoke. Common Law, however, provided a framework within which the victims of such pollution could seek redress. *All that was required was the enforcement of private property rights through, for example, the tort of nuisance.* Air pollution affecting the person or property of a given party clearly constituted a nuisance against which the victim should have been able to sue for damages.

But it was feared at the time that industrial progress would be impeded if the courts, relying on Common Law, defended the property rights of individuals, with industries paying appropriate damages. Thus, governments deliberately altered the laws relating to nuisance, negligence, and trespass. Private entitlements to clean air were transferred to the so-called "public domain" where, not surprisingly, they were effectively appropriated by industrialists. The sorry tale is told in an admirable paper by Joel F. Brenner: "Nuisance Law and the Industrial Revolution." (*Journal of Legal Studies,* 1974) and in Morton J. Horowitz's volume, *The Transformation of American Law, 1780-1860* (Cambridge, Mass.: Harvard University Press, 1977)

The effects of this dramatic change were singularly unfortunate. By declaring air a "public good" government made it possible for industrialists to impose the appalling costs of pollution upon the men, women, and children whose persons and property were invaded with impunity. Furthermore, the absolution of polluters from responsibility for the costs of their activities meant an absence of any economic incentives to develop non-polluting technologies.

The crucial point is disarmingly simple. Horror stories about pollution typically focus upon what people are doing to the air and to rivers, lakes, and oceans. It is no accident that these resources are "unowned," having been assigned by governments to the "public domain."

What to do? One might lament a lack of "social responsibility" on the part of polluters. One might fantasize that some as yet untried variant of the socialist formula will lead to the evolution of a "new humanity" regarding pollution with abhorrence. However, one *cannot* assert that the free market in a free society is responsible for pollution. Pollution exists in precisely those areas where the free market, depending as it does upon precisely defined and efficiently enforced private property rights, has not been allowed to operate. It is the absence, not the presence, of the free market that can be cited as a cause of pollution!

Conclusion

It is interesting to consider how the free market in a free society might address the problem of pollution. Clearly, a vital first step is a return to Common Law and the vigorous enforcement of private property rights. The laws of trespass, negligence, and nuisance to remedy the invasion of an individual's person or property by smoke, chemicals, noise, and so on would do much to resolve the problem. No less important would be the development of private property rights in hitherto "unowned" areas.

Yet interesting though such considerations might be, they are beyond the scope of this article. What is luminously clear, however, is that far from pollution problems being a natural result of the capitalist system, such problems can and must be ascribed to past and present statist interventions in the market. To the charge, "Capitalism pollutes!" the only informed response can be: "Not guilty!" □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Political Economy of the U.S. Constitution

by Dwight R. Lee

During the bicentennial of the U.S. Constitution it is appropriate to reflect on the political wisdom of our Founding Fathers. No written constitution in history has established a more durable or successful democracy than has the U.S. Constitution. A full appreciation of the Founding Fathers, however, requires an understanding of the economic as well as the political consequences of our Constitution. Every economy is a political economy and the enormous success of the U.S. economy has been as dependent on our political system as on our economic system.

Indeed, many of the problems that currently plague the U.S. economy are the result of our failure to hold on to the political wisdom that guided our Founding Fathers. Economic knowledge is obviously important in the effort to promote economic growth and development. But no matter how sound our economic understanding, economic performance will continue to suffer until we once again recognize that political power is a force for progress only when tightly constrained and directed toward limited objectives.

The genesis of the political and economic wisdom of our Founding Fathers is found in the fact that they distrusted government while fully recognizing the necessity of government for a beneficent social order. The cautious embrace the Founders gave government is reflected in their view of democracy as necessary but not sufficient for the proper control of government.

The concerns that led to the colonists' break with Great Britain were very much in the public mind when the Constitutional Convention met in Philadelphia during the summer of 1787. The well known prerevolution rallying cry, "No taxation without representation," reflected a clear understanding of the dangers that accompanied any exercise of government power not answerable to those who are governed. That the government established by the Constitution would be democratic in form was not in doubt. Unchecked democratic rule, however, was anathema to the most thoughtful of the Founding Fathers. A grievance against English rule rivaling that of "taxation without representation" concerned the sovereign authority assumed by the English Parliament in 1767. In that year Parliament decreed that, through its democratically elected members, it had the power to pass or strike down any law it desired. The colonists had brought with them the English political tradition, which dated back at least to the Magna Carta of 1215: the people have certain rights that should be immune to political trespass regardless of momentary desires of a democratic majority. The concern was not only that the colonists were unrepresented in Parliament but, more fundamentally, that Parliament assumed unlimited power to meddle in the private lives of individuals whether represented or not.

Although the Founding Fathers were determined to establish a government that was democratic in the limited sense that political decisions could not ignore citizen input, they had

Dwight Lee is a professor of economics at the University of Georgia and holds the Ramsey Chair in Private Enterprise. He is co-author (with Richard McKenzie) of the book Regulating Government: The Positive Sum Solution, *Lexington Books, 1987. The present article is adapted from a chapter in this book.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

no intention of creating a government that was fully responsive to majority interests. In many ways the Constitution is designed to frustrate the desire of political majorities to work their will through the exercise of government power. The most obvious example of this is the first ten amendments to the Constitution, or the Bill of Rights. These amendments guarantee certain individual freedoms against political infringement regardless of majority will. If, for example, freedom of speech and the press was dependent on majority vote many unpopular but potentially important ideas would never be disseminated. How effectively would a university education expose students to new and controversial ideas if professors had to submit their lectures for majority approval?

Other examples exist of the undemocratic nature of the government set up by the Constitution. There is very little that can be considered democratic about the Supreme Court. Its nine members are appointed for life, and their decision can nullify a law passed by the Congress and supported by the overwhelming majority of the American public. In a five to four decision one member of the court, insulated from the democratic process, can frustrate the political will of a nearly unanimous public. The arrangement whereby the President can reverse the will of the Congress through his veto power is certainly not a very democratic one. Neither is the Senate where the vote cast by a senator from Wyoming carries weight equal to the vote by the senator from California, even though the California senator represents a population fifty times larger than does the Wyoming senator. The senators from the twenty-six least populated states can prevent a bill from clearing Congress, even though it has incontestable popular support in the country at large. Congress is actually less democratic than just indicated once it is recognized that popular bills can be prevented from ever being considered in the full House of Representatives or Senate by a few representatives who serve on key congressional committees.

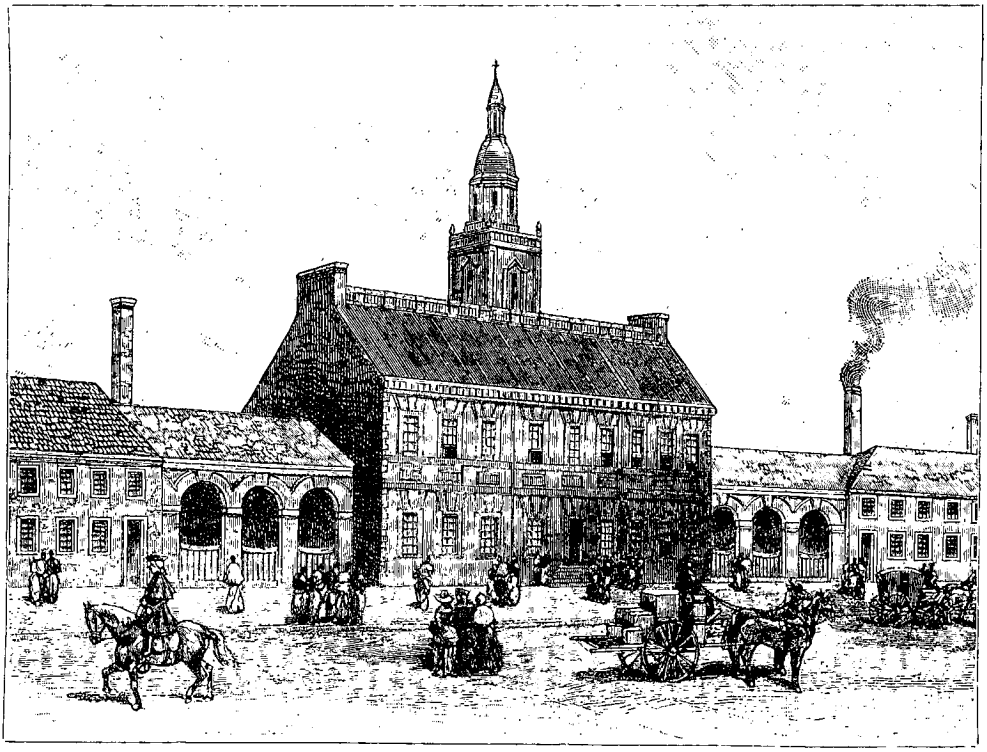
It is safe to say that the chief concern of the framers of the Constitution was not that of insuring a fully democratic political structure. Instead they were concerned with limiting government power in order to minimize the abuse of majority rule. In the words of R. A. Humphreys, "they [the Founding Fathers] were concerned not to make America safe for democracy, but to make democracy safe for America."[1]

Prelude to the Constitutional Convention

Fear of the arbitrary power that could be exercised by a strong central government, democratically controlled or otherwise, was evident from the Articles of Confederation. The Articles of Confederation established the "national government" of the thirteen colonies after they declared their independence from England. There is some exaggeration in this use of the term national government, since the Articles did little more than formalize an association (or confederation) of thirteen independent and sovereign states. While the congress created by the Articles of Confederation was free to deliberate on important issues and pass laws, it had no means of enforcing them. The Articles did not even establish an executive branch of government, and congressional resolutions were nothing more than recommendations that the states could honor if they saw fit. The taxes that states were assessed to support the Revolutionary War effort were often ignored, and raising money to outfit and pay the American army was a frustrating business.

Because of the weakness of the national government, the state governments under the Article of Confederation were strong and often misused their power. Majority coalitions motivated by special interests found it relatively easy to control state legislatures and tramp on the interests of minorities. Questionable banking schemes were promoted by debtors, with legislative assistance, in order to reduce the real value of their debt obligations. States often resorted to the simple expedient of printing money to satisfy their debts. Trade restrictions between the states were commonplace as legislators responded to the interests of organized producers while ignoring the concerns of the general consumers. There was a 1786 meeting in Annapolis, Maryland of the five middle states to discuss ways to reduce trade barriers between the states. At this meeting the call was

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



The State House, Philadelphia, site of the Constitutional Convention.

made for a larger meeting in Philadelphia in the following year to discuss more general problems with the Articles of Confederation. This meeting became the Constitutional Convention.

Achieving Weakness Through Strength

It was the desire of Madison, Hamilton, and other leaders at the Constitutional Convention to replace the government established by the Articles of Confederation with a central government that was more than an association of sovereign states. The new government would have to be strong enough to impose some uniformity to financial, commerical, and foreign policy and to establish some general protections for citizens against the power of state governments if the new nation was to be viable and prosperous. In the words of James Madison, we needed a "general government" sufficiently strong to protect "the rights of the minority," which are in jeopardy "in all cases where a majority are united by a common interest or passion."[2] But this position was not an easy one to defend. Many opponents to a genuine national government saw little merit in the desire to strengthen government power at one level in order to prevent the abuse of government power at another level. Was there any genuine way around this apparent conflict? Many thought not, short of giving up on the hope of a union of all the states. There were those who argued that the expanse and diversity of the thirteen states, much less that of the larger continent, were simply too great to be united under one government without sacrificing the liberty that they had just fought to achieve.[3]

Madison, however, saw no conflict in strengthening the national government in order to control the abuses of government in general. In his view the best protection against arbitrary government authority was through centers of government power that were in effective competition with one another. The control that one interest group, or faction, could realize through a state government would be largely nullified when political decisions resulted from the inter-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

action of opposing factions within many states. Again quoting Madison,

> The influence of factious leaders may kindle a flame within their particular States but will be unable to spread a general conflagration through the other States. . . . A rage for paper money, for an abolition of debts, for an equal division of property, or for any other improper or wicked project, will be less apt to pervade the whole body of the Union than a particular member of it . . .[4]

A central government strong enough to unite a large and diverse set of states would weaken, rather than strengthen, the control that government in general could exercise.

To the framers of the Constitution weakening government in the sense just discussed meant making sure that government was unable to extend itself beyond a relatively limited role in the affairs of individuals. This does not imply, however, impotent government. The referees in a football game, for example, certainly are not the strongest participants on the field and have limited control over specific outcomes in the game. Yet in enforcing the general rules of the game the decisions of the referees are potent indeed. Government, in its role as referee, obviously cannot lack the authority to back up its decisions. In addition to performing its refereeing function, it is also desirable for government to provide certain public goods; goods such as national defense that will not be adequately provided by the private market. Again this is a duty which requires a measure of authority; in this case the authority to impose taxes up to the limit required to provide those public goods which are worth more than they cost.

How to Impose Control?

In granting government the power to do those things government should do, the Founding Fathers knew they were creating a power that had to be carefully controlled. But how could this control be imposed? It could not be imposed by specifying a particular list of government do's and don't's. Such a list would be impossibly detailed and even if it could be drafted it would need to be revised constantly in response to changes in such considerations as population size, age distribution, wealth, and the state of technology. Instead, government has to be controlled by a general set of constitutional rules within which governmental decisions are made, with specific government outcomes determined through the resulting political process. It was the hope of those at the Constitutional Convention to establish a political process, through constitutional reform, that brought government power into action only when needed to serve the broad interests of the public.

This hope was not based on the naive, though tempting, notion that somehow individuals would ignore their personal advantages and concentrate on the general advantage when making political decisions. While noble motives are seldom completely absent in guiding individual behavior, whether private or public, the Founding Fathers took as a given that most people, most of the time, maintain a healthy regard for their private concerns. The only way to prevent self-seeking people from abusing government power was to structure the rules of the political game in such a way that it would be costly for them to do so. The objective of the framers was to create a government that was powerful enough to do those things that received political approval, but to establish a political process that made it exceedingly difficult to obtain political approval for any action that lacked broad public support.

There were, of course, some powers that the national government was not constitutionally permitted to exercise. The national government was created by the states, and until the Constitution all governmental power resided in the states. Through the Constitution the states relinquished some of their powers to the national government, e.g., the power to impose taxes on the citizens, establish uniform rules of naturalization, raise an army and navy, and declare war. In addition the states agreed to refrain from exercising certain powers; e.g., the power to coin money, pass laws impairing the obligation of contracts, and pass retroactive laws. Important government powers remained in the states, however, with some of them located in the local governments. Thus the powers that could be exercised by government were lim-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ited, and the powers that did exist were diffused over three levels of government. The Constitution further diffused power at the national level by spreading it horizontally over three branches of government, the power of each acting as a check and balance on the power of the others.

The intent of the Founding Fathers was to so fragment government power that it would be extremely difficult for any narrowly motivated faction to gain sufficient control to work its political will. Only those objectives widely shared and consistent with Constitutional limits would be realized through the use of government power. The beauty of the political process established by the Constitution is that it is cumbersome and inefficient. According to Forrest McDonald the process is "So cumbersome and inefficient . . . that the people, however virtuous or wicked, could not activate it. It could be activated through deals and deceit, through bargains and bribery, through logrolling and lobbying and trickery and trading, the tactics that go with man's baser attributes, most notably his greed and his love of power. And yet, in the broad range and on the average, these private tactics and motivations could operate effectively only when they were compatible with the public good, for they were braked by the massive inertia of society as a whole."[5] Or, as Clinton Rossiter has said of the Founding Fathers' motives in creating the system of checks and balances, "Liberty rather than authority, protection rather than power, delay rather than efficiency were the concern of these constitution-makers."[6]

The Economic Success of the Constitution

It is hard to argue with the success of the U.S. Constitution. The history of the United States in the decades after the ratification of the Constitution was one of limited government and individual liberty, major increases in the size of the U.S. in terms of population and geography, and unprecedented growth in economic well-being. With the major exception of (and to a large extent, in spite of) the unfortunate legacy of slavery and the Civil War, millions of diverse people were able to pursue their individual objectives through harmonious and productive interaction with one another. The opportunities created by the process of specialization and exchange made possible by limited and responsible government motivated an outpouring of productive effort that soon transformed a wilderness into one of the most prosperous nations in the world. The role the U.S. Constitution played in this transformation was an important one and can be explained in terms of both negative and positive incentives.

Broadly speaking there are two ways an individual can acquire wealth: 1) capture existing wealth through nonproductive transfer activities, or 2) create new wealth through productive activities. A major strength of the Constitution is that it established positive incentives for the latter activities and negative incentives for the former.

The most obvious form of nonproductive transfer activity is private theft. The thief simply takes through force or stealth something that belongs to someone else. A primary purpose for establishing government is to outlaw private theft. But the power that government necessarily possesses if it is to enforce laws against private theft is a power that affords individuals or groups the opportunity to benefit through public "theft" (legal transfer activity to phrase it more gently). The more vague and ineffective the limits on government authority, the less difficult it is to acquire legal transfers through political activity, and the larger the number of people who will find this activity offering them the greatest profit opportunity.

While those who are successful at the transfer game can increase their personal wealth, in some cases significantly, it is obvious that the country at large cannot increase its wealth through transfer activity. What one person receives is what another person, or group, loses. No net wealth is created, and for this reason transfer activity is often referred to as a zero-sum game. In fact, it is more accurately described as a negative-sum game. The attempts of some to acquire transfers, and the predictable efforts of others to protect their wealth against transfers, require the use of real resources. These resources could be productively employed creating new wealth rather than wasted in activities that do nothing more

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

than redistribute existing wealth. For every dollar that one person receives from a transfer activity the rest of the community sacrifices more than a dollar.

Incentives to Produce

A major virtue of the U.S. Constitution was that it discouraged people from playing the transfer game. By establishing a governmental apparatus that was very difficult to put in motion for narrowly motivated purposes, the Constitution dampened the incentive to use government as a means of acquiring the wealth of others. This is not to say that the government was not used as a vehicle for transfer in the early days of our Constitutional government. Every political decision results in some redistribution of wealth, and no governmental structure will ever completely insulate the political process against the transfer activities of some.[7] But the opportunity for personal enrichment through political activity was limited. Most people found that the best way to increase their wealth was through wealth producing activities.

It was here that the political structure established by the Constitution created positive incentives. Not only did the Constitution establish a climate in which it was difficult to profit from transfer activities, it also created a setting in which productive effort was rewarded. By providing protection against the arbitrary taking of private property (the Fifth Article of the Bill of Rights) people were given assurance that they would not be denied the value generated by their efforts. This provided people with strong incentives to apply themselves and their property diligently. In the words of M. Bruce Johnson, "America was a place where if you were ready to sow, then by God you could reap."[8]

But the motivation to work hard is not enough for a productive economy. Also needed is information on the objectives toward which effort and resources are best directed, as well as incentives to act on this information. It is the protection of private property that provides the foundation for a system of price communication and market interaction which serves to guide effort and resources into their most valuable employments. To complete this system the concept of private property rights has to be expanded to include the right to transfer one's property to others at terms regulated only by the mutual consent of those who are party to the exchange. The lower the cost of entering into transactions of this type, the more effectively the resulting market prices will allow people to communicate and coordinate with each other to the advantage of all. The U.S. Constitution lowered these transaction costs by reducing government's ability to interfere with mutually acceptable exchanges and by putting the weight of the national government behind the sanctity of the contracts that resulted from these exchanges.

In what has become known as the "contract clause" of the Constitution, the states are forbidden from passing any "law impairing the obligation of contracts. . . ." In the same clause the states are also forbidden from imposing tariff duties on imports or exports (unless absolutely necessary for enforcing inspection laws). In the "commerce clause" the national government was given the power to regulate commerce "among the several states." Though the commerce clause can be interpreted (and indeed has been in recent decades) as providing the central government the authority to substitute political decisions for market decisions over interstate commerce, the U.S. Congress ignored this possibility until it passed the Interstate Commerce Act in 1887. Prior to the Civil War the commerce clause was used instead by the U.S. Supreme Court to rule unconstitutional state laws that attempted to regulate commerce. After 1868 the Supreme Court made use of the doctrine of due process as expressed in the fourteenth amendment to strike down many government attempts to violate the sanctity of contracts through their regulation of such things as prices, working hours, working conditions, and pay.

In summary, the Constitution created an environment in which private advantage was best served by engaging in productive positive-sum activities. The specialization and exchange facilitated by the Constitutional rules of the game is a system in which individuals can improve their own position only by serving the interests of others. When private property is protected

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

against confiscation, an individual becomes wealthy only by developing skills, creating new products, or innovating better technologies and thereby providing consumers with more attractive options than they would otherwise have. In a truly free enterprise economy, with the minimum government role envisioned by the framers of the Constitution, the rich are the benefactors of the masses, not the exploiters as commonly depicted. Wealth through exploitation becomes possible only when unrestricted government allows negative-sum transfer activity to become more profitable than positive-sum market activity.

Constitutional Erosion and the Rise of Political Piracy

The early success of the Constitution, and the economic system that developed under it, is reflected in the fact that relatively few people felt any urgency to worry about politics. Political activity offered little return as there was little chance to exploit others, and little need to prevent from being exploited by others, through political involvement. People could safely get on with their private affairs without having to worry about the machinations and intrigues of politicians and bureaucrats in faraway places. But this very success can, over time, undermine itself as a politically complacent public increases the opportunities for those who are politically involved to engage in political chicanery.

Motivating people to maintain the political vigilance necessary to protect themselves against government is always a difficult task. The individual who becomes involved in political activity incurs a direct cost. By devoting time and resources in attempting to realize political objectives he is sacrificing alternative objectives. The motivation to become politically active will be a compelling one only if the expected political outcome is worth more to the individual than the necessary personal sacrifices. This will typically not be the case when the objective is to prevent government from undermining the market process that it is government's proper role to protect. The benefits that are realized from limited government are general benefits. These benefits accrue to each individual in the community whether or not he personally works to constrain government.

Over the broad range of political issues, then, people quite rationally do not want to get involved. This is not to say, however, that everyone will be apathetic about all political issues. This clearly is not the case, and it is possible to predict the circumstances that will motivate political activism. Often a relatively small number of individuals will receive most of the benefit from a particular political decision, while the community at large bears the cost. Members of such a special interest group will find it relatively easy to organize for the purpose of exerting political influence. The number of people to organize is comparatively small; the group is probably already somewhat organized around a common interest, and the political issues that affect this common interest will be of significant importance to each member of the group.

Of course, the free rider problem exists in all organizational efforts, but the smaller the group and the narrower the objective the easier it is to get everyone to contribute his share. Also, the benefits of effective effort can be so great to particular individuals in the group that they will be motivated to work for the common objective even if some members of the group do free-ride. Not surprisingly then, narrowly focused groups commonly will have the motivation and ability to organize for the purpose of pursuing political objectives.[9] The result is political piracy in which the politically organized are able to capture ill-gotten gains from the politically unorganized.

The Constitutional limits on government imposed effective restraints on political piracy for many years after the Constitution was ratified. There are undoubtedly many explanations for this. The vast frontier rich in natural resources offered opportunities for wealth creation that, for most people, overwhelmed the opportunities for personal gain through government transfer activity. Also, it can take time for politically effective coalitions to form after the slate has been wiped clean, so to speak, by a social upheaval of the magnitude of first the Revolutionary War and then the Civil War.[10] Public attitudes were also an important consideration in the control of government.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Much has been written about how the pervasive distrust of government power among the American people shaped the framing of a Constitution that worked to limit government.[11] What might be more important is that the Constitution worked to limit government because the public had a healthy distrust of government power. For example, in the 1860s the Baltimore and Ohio railroad had its Harpers Ferry bridge blown up many times by both the Confederate and Union armies, and each time the railroad rebuilt the bridge with its own funds without any attempt to get the government to pick up part of the tab. Or consider the fact that in 1887 President Grover Cleveland vetoed an appropriation of $25,000 for seed corn to assist drought-stricken farmers with the statement, "It is not the duty of government to support the people."[12] There is little doubt that Cleveland's view on this matter was in keeping with broad public opinion.

The Constitutional safeguards against government transfer activity unfortunately have lost much of their effectiveness over the years. The western frontier disappeared, and a long period of relative stability in the political order provided time for factions to become entrenched in the political process. Of more direct and crucial importance, however, in the move from productive activity to transfer activity has been the weakening judicial barrier to the use of government to advance special interests. The 1877 Supreme Court decision in *Munn* v. *Illinois* is often considered to be a watershed case. This decision upheld a lower court ruling that the Illinois state legislature had the authority to determine the rates that could be charged for storing grain. This decision, by sanctioning an expanded role for government in the determination of prices, increased the payoff to political activity relative to market activity and established an important precedent for future increases in that payoff.

In *Chicago, Milwaukee and St. Paul Railroad Co.* v. *Minnesota,* decided in 1890, the Supreme Court imposed what appeared to be limits on state regulation of economic activity by ruling that such regulation must be reasonable. Unfortunately, this reasonableness doctrine put the effectiveness of judicial restraint on government at the mercy of current

Justice Louis D. Brandeis

fashion in social thought. What is considered unreasonable at one time may be considered quite reasonable at another.[13] It was unreasonable for the Baltimore and Ohio railroad to consider requesting government funds to repair its Harpers Ferry bridge, destroyed by government forces, during the Civil War. In the 1980s it was considered reasonable for Chrysler Corporation to request and receive a federal government bailout because Chrysler was not competing successfully for the consumer's dollar.

Undermining Constitutional Law

The idea of reasonable regulation significantly undermined the concept of a higher Constitutional law that established protections needed for the long-run viability of a free and productive social order. Once the notion of reasonable regulation stuck its nose into the judicial tent it was just a matter of time before the courts began seeing their task as that of judging particular outcomes rather than overseeing the general rules of the game. Illustrative of this changing emphasis was the legal brief submitted by Louis Brandeis, then an attorney for the state of Oregon, in the 1908 case *Muller* v. *Oregon*. At issue was the constitutionality of an

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Oregon law which regulated the working hours of women. The Brandeis brief contained only a few pages addressing constitutional considerations and well over one hundred pages of social economic data and argumentation attempting to establish the unfortunate consequences of women working long hours. It was a judgment on the reasonableness of a particular outcome, women working long hours, rather than constitutional considerations, which were considered of paramount importance and led to a Supreme Court ruling in favor of Oregon.[14] When the constitutionality of legislation stands or falls on the "reasonableness" of the particular outcomes it hopes to achieve, opportunities increase for people to increase their wealth through nonproductive political activity.

In the 1911 case *United States* v. *Grimand,* the Supreme Court handed down a decision that significantly increased the private return to obtaining transfers through political influence. Prior to this decision, the U.S. Congress had increasingly moved toward granting administrative agencies the authority to promulgate specific rules in order to implement the general policy objectives outlined by Congress. In *United States* v. *Grimand* the high court empowered these administrative rulings with the full force of law. After this decision, the cost of successfully using government authority to transfer wealth decreased significantly as special interest groups seeking preferential treatment could concentrate their influence on a few key members of a particular administrative board or agency. The typical result of this has been the development of symbiotic relationships between bureaucratic agencies and their special interest clients. A special interest group can thrive on the benefits transferred to it by the ruling of a bureaucracy, and the bureaucracy's budget and prestige will depend on a thriving special interest group demanding its services.[15]

What we have observed over the years is a slow, somewhat erratic, but unmistakable breakdown in the protection the Constitution provides the public against arbitrary government power. Those who want to get on with the task of creating new wealth have much less assurance today then they did in the past that significant portions of the wealth they create will not be confiscated by government and transferred to those who have specialized in political influence.

Maintaining constitutional constraints on government transfer activity is a task requiring constant vigilance. Once a breakdown in these constraints begins, it can initiate a destructive dynamic of increasing government transfers that is difficult to control. Any change that makes it easier to obtain transfers through government will motivate some people to redirect their efforts away from productive enterprises and into transfer enterprises. As this is done, those who continue to create new wealth find the payoff from doing so is somewhat diminished as more of this wealth is being taken from them. This further reduction in the relative return to productive activity motivates yet more people to use government power to benefit at the expense of others. Furthermore, the burdens and inefficiencies created by one government program will be used as "justification" for yet additional government programs which will create new burdens and inefficiencies.[16] This dynamic can lead to what is best characterized as a "transfer society."[17]

Political Piracy and the Transfer Society

Once we start down the road to the transfer society we can easily find ourselves trapped in a situation almost everyone will disapprove of, but which no one will be willing to change. The analogy of piracy is appropriate here. When all ships are productively employed shipping the goods, a large amount of wealth can be generated. But if sanctions against piracy are eased a few shippers may find it to their personal advantage to stop shipping and start pirating the merchandise being shipped by others, even though this reduces the total wealth available. This piracy by the few will reduce the return the others receive from shipping, and there will be an increase in the number finding the advantage in piracy. Eventually the point may be reached where everyone is sailing the seas looking for the booty that used to be shipped but is no longer. No one is doing well under these circumstances, and indeed, all would be much better off if everyone would return to shipping the goods. Yet who will be willing to

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

return to productive shipping when everyone else is a pirate?

Obviously, we have not yet arrived at the point of being a full-blown transfer society; not everyone has become a political pirate. There are plenty of people who remain productive, and they still receive a measure of protection against the confiscation of the returns to their efforts by the constitutional limitations that remain on government power. But there can be no doubt that these limitations are less effective today than they were in the past. This erosion is in large measure due to a change in the prevailing attitude toward government. The fear of unrestrained government power that guided the Founding Fathers has been largely replaced with the view that discretionary government power is a force for social good. If there is a problem, government supposedly has the obligation and ability to solve it. Such public attitudes have a decisive influence on the effectiveness of constitutional limitations.

Simply writing something down on a document called the Constitution does not by itself make it so. And, because of this fact, Alexis de Tocqueville, writing in the 1830s, predicted that the U.S. Constitution would eventually cease to exercise effective restraint on government. According to Tocqueville, "The government of the Union depends almost entirely upon legal fictions." He continued that it would be difficult to "imagine that it is possible by the aid of legal fictions to prevent men from finding out and employing those means of gratifying their passions which have been left open to them"[18]

But controlling our passions is what constitutional government is all about. In the absence of government we have the anarchy of the Hobbesian jungle in which those who control their passion for immediate gratification and apply their efforts toward long-run objectives only increase their vulnerability to the predation of those who exercise no control or foresight. Granting government the power to enforce general rules of social interaction is surely a necessary condition if a productive social order is to emerge from a state of anarchy. But without strict constitutional limits on the scope of government activity, the existence of government power will only increase the scope of effective predation. The notion that government can solve all problems becomes a convenient pretense for those who would solve their problems, not in cooperation with others, but at the expense of others. Unlimited government reduces the personal advantage to the productive pursuit of long-run objectives just as surely as does anarchy. In such a case, government is little more than the means of moving from the anarchy of the Hobbesian jungle to the anarchy of the political jungle.

The American experience, however, demonstrates convincingly that with a healthy fear of government power and a realistic understanding of human nature, a constitution can be designed that, over a long period of time, will effectively constrain government to operate within the limits defined by the delicate balance between proper power and prudent restraint. All that is needed to restore the U.S. Constitution to its full effectiveness is a return to the political wisdom that guided our Founding Fathers 200 years ago.

Conclusion

The U.S. is a wealthy country today in large part because our Founding Fathers had what can be quite accurately described as a negative attitude toward government. They had little confidence in the ability of government to promote social well-being through the application of government power to achieve particular ends. In their view, the best that government can realistically hope to achieve is the establishment of a social setting in which individuals are free, within the limits of general laws, to productively pursue their own objectives.

This negative view of government contrasts sharply with the dominant view today; the view that government is the problem solver of last resort and has an obligation to provide a solution to any problem not resolved immediately in the private sector. Unfortunately, this positive view of government is less conducive to positive consequences than the negative view of the Founders. According to F. A. Hayek:

> The first [positive view] gives us a sense of unlimited power to realize our wishes, while the second [negative view] leads to the insight that there are limitations to what we can

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

deliberately bring about, and to the recognition that some of our present hopes are delusions. Yet the effect of allowing ourselves to be deluded by the first view has always been that man has actually limited the scope of what he can achieve. For it has always been the recognition of the limits of the possible which has enabled man to make full use of his powers.[19]

The exercise of government can, without doubt, be used to accomplish particular ends. Neither can it be denied that many of the specific outcomes realized through government programs provide important benefits and advance worthy objectives. But, as is always the case, those accomplishments are only realized at a cost, and the pervasive truth about government accomplishments is that those who benefit from them are seldom those who pay the cost. Indeed, much of the motivation for engaging in political actions is to escape the discipline imposed by the market where individuals are accountable for the cost of their choices.

The escape from market discipline is the inevitable consequence of reducing the constitutional limits on the use of government power. The immediate and visible benefits that are generated by wide-ranging government discretion are paid for by a shift in the incentive structure that, over the long run, will reduce the amount of good that can be accomplished. More, much more, has been accomplished by the American people because our Founding Fathers had a strong sense of the limits on what can be accomplished by government. □

1. R. A. Humphreys, "The Rule of Law and the American Revolution," *Law Quarterly Review* (1937). Also quoted in F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 474.

2. *Records of the Federal Convention of 1787*, Max Ferrand, ed. (New Haven: Yale University Press, 1937) Vol. 1, p. 57 and pp. 134-135.

3. See Herbert J. Storing, *What the Anti-Federalists Were for: The Political Thought of the Opponents of the Constitution* (Chicago: The University of Chicago Press, 1981).

4. Madison in Federalist 10, *The Federalist Papers* (New York: New American Library Edition, 1961).

5. Forrest McDonald, *E Pluribus Unum: The Formation of the American Republic 1776-1790* (Indianapolis: Liberty Press, 1979), p. 316.

6. Clinton Rossiter, *Seedtime of the Republic: The Origin of the American Tradition of Political Liberty* (New York: Harcourt, Brace and World, 1953), p. 425.

7. For a discussion of the use of government to transfer wealth throughout American history, see Jonathan R. T. Hughes, *The Governmental Habit: Economic Controls from Colonial Times to the Present* (New York: Basic Books, 1977).

8. M. Bruce Johnson, ed., *Resolving the Housing Crisis: Government Policy, Decontrol, and the Public Interest* (San Francisco: Pacific Institute for Public Research, 1982), p. 3.

9. According to Milton Friedman, "The most potent group in a democracy such as ours is a small minority that has a special interest which it values very highly, for which it is willing to give its vote, regardless of what happens elsewhere, and about which the rest of the community does not care very strongly." See Milton Friedman, "Special Interest and His Law," *Chicago Bar Record* (June 1970).

10. Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982).

11. Gordon S. Wood, *The Creation of the American Republic: 1776-1787* (Chapel Hill: The University of North Carolina Press, 1969), especially chapter 1.

12. Quoted in A. Nevins, *Grover Cleveland: A Study in Courage* (New York: Dodd Mead, 1932).

13. In spite of the two decisions just cited, between 1897 and 1937, the Supreme Court made use of the due process clause of the Fourteenth Amendment to reach decisions that served to protect the market process against political intrusions. See Bernard Siegan, *Economic Liberties and the Constitution* (Chicago: University of Chicago Press, 1981). Unfortunately, this pattern of judicial decisions was not solid enough to prevent these decisions from being ignored or overruled when the political climate and prevailing notions of reasonableness changed.

14. For a brief but useful discussion of this case see Thomas K. McCraw, *Prophets of Regulation* (Cambridge: The Belknap Press of Harvard University Press, Cambridge, 1984), pp. 87-88.

15. The relationship between the U.S. Department of Agriculture and the farm bloc is but one of many illustrative examples that could be cited here. It is clear that those employed by the Department of Agriculture strongly support the agricultural price support and subsidy programs that transfer literally billions of dollars from the American consumer and taxpayer to the nation's farmers (most of this transfer goes to the largest and wealthiest farmers; see Bruce L. Gardner, *The Governing of Agriculture* [Lawrence: Regents Press of Kansas, 1981]). It is by expanding these programs that the Department of Agriculture can justify bigger budgets and more employees, something it has been quite successful at doing. In 1920 when the farm population was approximately 31 million, the Department of Agriculture employed 19,500 people. By 1975 the farm population had declined to less than 9 million, but the Department of Agriculture had increased its employment to 121,000 people. This trend toward fewer agricultural workers relative to agricultural bureaucrats has continued into the 1980s.

16. Our Federal farm programs are a perfect example of this process. See Gardner, *ibid.* Early on, James Madison recognized the possibility of this type of legislative chain reaction. In Federalist 44 Madison states, "that legislative interference, is but the first link of a long chain of repetitions; every subsequent interference being naturally produced by the effects of the preceding."

17. For a detailed and compelling analysis of how the breakdown in constitutional limitations on government activity has moved the U.S. away from positive-sum economic activity and toward negative-sum activity, see Terry L. Anderson and Peter J. Hill, *The Birth of a Transfer Society* (Stanford, California: Hoover Institution Press, 1980).

18. Quoted in Felix Morley, *Freedom and Federalism*, (Chicago: Regnery, 1959): pp. 138-139.

19. Friedrich A. Hayek, *Law, Legislation and Liberty*, Vol. 1 *Rules and Order* (Chicago: University of Chicago Press, 1973), p. 8.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Freedom in the Dock

by Howard Baetjer Jr.

"What you're talking about is survival of the fittest, right? Laissez-faire capitalism—where the strong make it and the weak die; is that it?" The accusation bursts forth from a tenth-grader in an American history class. She has been listening intently to my description of the limited government, private property, unhampered market philosophy, and is visibly pained to hear so barbarous a system advocated. Have I no concern for the weak, for those who don't have the skill or training to make it in capitalism?

Respected guest lecturer a moment ago, I have suddenly become a prisoner at the bar, accused of hard-heartedness. The jury is a classroom full of bright fifteen- and sixteen-year-olds. They appear to think my prospects bleak, but they settle back into their chairs to hear the defense.

I begin by pointing out that capitalism, in a limited sense, *is* a system in which the fittest flourish and the least fit disappear—as long as one is talking about business enterprises. A company prospers as long as it provides consumers some good or service they want at a price they will pay. But if its competitors should cut costs and charge less for a similar product, or offer a better product at a good price, that company must adapt or lose customers. It must improve its own product, develop cost savings of its own, or even go into a different product line. But if it doesn't adapt, it goes out of business.

In practice, approximately half of all companies fail within the first five years; the inefficient or outdated continually give way to the newer and better. Many of yesteryear's giants—Kaiser Steel, Sperry & Hutchinson, Cerro, Bendix, Pullman, and others—have vanished, while a few of yesteryear's infants have risen to prominence. Economist Joseph Schumpeter aptly called this process "gales of creative destruction." From this standpoint, the marketplace is as ruthless as nature in the wild.

But this ruthlessness applies only to business enterprises—abstractions without feelings or families. It does not apply to people. When a company fails, its workers and proprietors alike lose their employment . . . for a time. But the only thing actually to disappear is the abstraction we call the company. Its buildings and capital equipment survive, bought by other companies. The people who worked there adjust: they find new jobs or start other companies for whose products there is more demand.

This distinction between companies and people is crucial. In fact, because capitalism permits only the fittest *companies* to flourish, it dramatically assists even the least skilled *people* to prosper.

Howard Baetjer is on the staff at FEE.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

As consumers, the least skilled benefit greatly from capitalism. In a market economy, businesses compete to reach the largest possible markets. Thus they strive to produce more goods and services while cutting their costs of production. Among the biggest winners in capitalistic competition are companies that expand their markets by bringing their products within the price range of low-income people. As Schumpeter observed in *Capitalism, Socialism, and Democracy,* "Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort."

Not many years ago the chairman of IBM estimated optimistically that before long, at least a hundred companies in America would be able to afford their own computers. He underestimated capitalism: personal computers can now be purchased for under $100, well within the range of even low-income families. Thus capitalism tends steadily to increase the buying power of the less affluent and affluent alike. The "gales of creative destruction" among producers are fair winds bringing vessels richly laden for consumers.

Capitalism Benefits All

Capitalism benefits the disadvantaged and unskilled as wage earners also. The market process lifts wage rates for all levels of ability. As businesses accumulate capital and utilize better machines, the output per worker increases. Hence the value of labor services increases, and employers, competing with one another for these services, must pay higher wages to attract the workers they need. For example, average real monthly earnings for American farm laborers increased six-fold from 1820 to 1950. Similar wage increases have occurred in nonfarm employment.

Even for the severely handicapped or infirm, capitalism is the best available economic system. Such unfortunate people necessarily depend on the care of others in any system. But in controlled economies, production is meager; the able-bodied have little to spare for those who cannot work. In capitalism, production is bountiful; there is an ever-increasing surplus with which concerned people can care for those unable to care for themselves. Americans contribute an average of $650 a year to charities. (*U.S. News & World Report,* April 28, 1986) This figure by itself exceeds the total annual per capita income of much of the non-capitalist world. How are people in non-capitalist nations to provide wheelchairs, artificial limbs, books on tape, and Special Olympics for their unfortunate, when they have trouble feeding themselves?

This is not to imply that the United States has or ever did have a consistently capitalist economy. The point is that the relatively large degree of capitalism in America has benefited all—consumers, workers, and the dependent.

In human society the strife-filled "law of the jungle" is approximated in proportion to the amount of government intervention in economic activity. The more political power and privilege are used to seize and dispense the fruits of human labor, the more people must act like the proverbial jungle's beasts, which vie for the limited amounts that nature provides. They struggle among themselves in an appropriation process, grasping for what the government has seized from ever fewer discouraged producers. In this shoving at the public trough, the strong prevail and the weak—the politically powerless—get pushed aside.

In the market, however, people cooperate in a production process. Not limited to nature's bare provision, they transform natural resources and produce an abundance of new goods. Each tries to provide what others want, to exchange for a portion of what others have produced. All contribute; all gain from others' efforts.

I turn to the young woman who asked the question and give my summation: Yes, I'm advocating laissez-faire capitalism. But capitalism is *not* a system in which only the fittest individuals survive; it is a system of growing abundance for all. It is the economic system which best provides for the disadvantaged people we all are concerned about.

She nods ever so slightly, her expression softened. The bell rings and the jury rises. They are deliberating as they leave the classroom. I never get to hear the verdict. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Politics of Deficit Spending

by Hans F. Sennholz

During the first 150 years of U.S. history, it was a maxim of political economy that the federal government should balance its budget. The only exception was allowed in wartime when deficits were deemed to be unavoidable. But when the war emergency had passed, the federal government was expected to repay the debt as soon as possible. It was made to run surpluses for 28 consecutive years after the Civil War, and for 11 consecutive years after World War I.

The debacle of the Great Depression together with the sway of Keynesian economics gave rise to a new belief that, in periods of economic decline and stagnation, budgetary deficits could serve to stimulate economic activity. But the deficits should be offset by surpluses in periods of prosperity so that the budget would remain in balance over the business cycle as a whole. As was to be expected, the "contracyclical budget" did not bring about stability and did not remain in balance. Instead, it invited politicians and government officials to engage in wasteful and self-interested expenditures. It not only sanctioned executive and bureaucratic profligacy but also encouraged congressional "pork barreling." In short, it bred huge budgetary deficits not only during recessions but also at other times.

Since the coming of the Great Society even the Keynesian modicum of fiscal discipline has gradually slipped away. Budgets still are viewed as contracyclical tools, but primarily are used as a free-for-all for special interests. In boom and recession the federal government now suffers substantial deficits. In fact, in 24 of the last 25 years it incurred deficits that grew larger nearly every year—exceeding 2.5 per cent of gross national product in all but one of the past ten years and averaging over 5 per cent in the last three years. Fourteen cents of every dollar spent by the federal government now come from lenders rather than taxpayers.

The growing deficits have left a mountain of Federal debt. By the end of World War II, it had soared to some $245 billion and 133 per cent of gross national product. Although a substantial further increase in dollar debt occurred between 1946 and 1971, the ratio of debt to GNP fell sharply and by 1971 had fallen to prewar levels. Most of this was the result of inflation which accelerated the rise of GNP in monetary terms and depreciated the debt. By 1981 the Federal debt exceeded the one trillion dollar mark and amounted to 33.6 per cent of GNP. In 1986 it climbed above the 2 trillion mark and some 50.4 per cent of GNP.[1] At the present rate of deficit spending it will reach 3 trillion dollars and surpass 60 per cent of GNP before the end of the decade.

Ambivalent Voters

The record of deficit spending depresses and frightens most Americans. They worry that they are living on borrowed time that some day must end, or in a dream world that will crash like the stock market in 1929. They sense that something is wrong and that, in the end, the

Dr. Sennholz heads the department of economics at Grove City College in Pennsylvania. He is a noted writer and lecturer on economic, political, and monetary affairs.

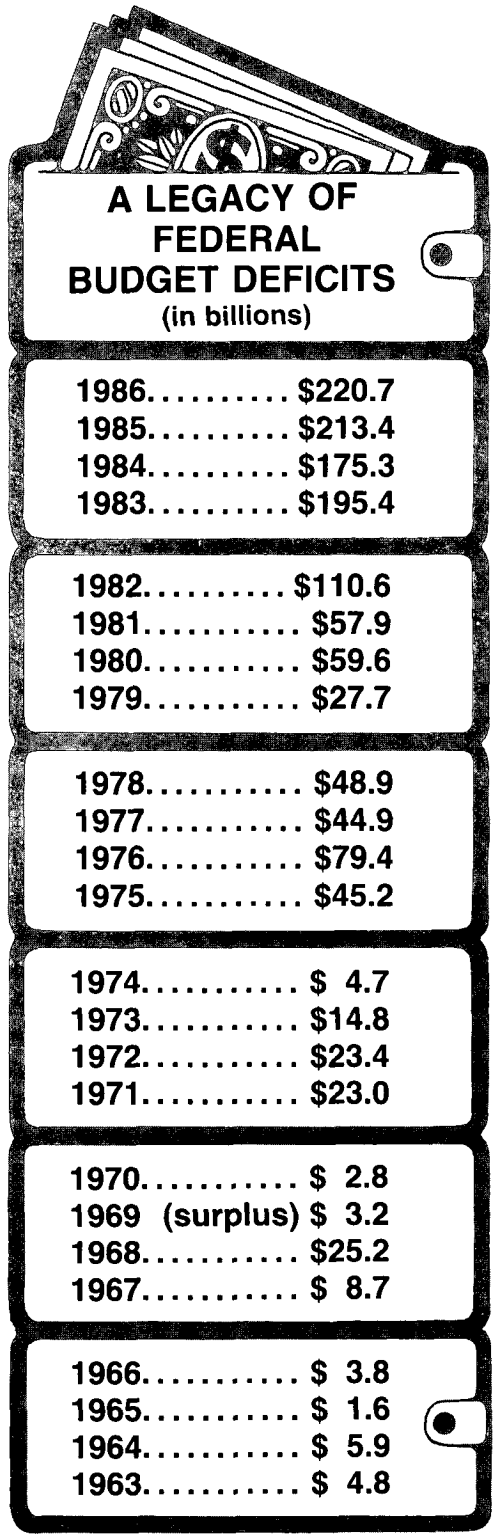
LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Federal debt will hurt their own financial situation. After all, debts need to be paid, even government debts. But this concern among voters is difficult to grasp as a tangible, solvable problem. They do not see the deficit as an immediate threat nor do they perceive a crisis that needs to be solved today. Therefore, they are unwilling to take the painful steps that are believed to be essential to reduce the deficit drastically.

The American people overwhelmingly support reduction in Federal spending, but they balk at virtually every proposal of specific cuts. A nationwide poll conducted by *The Wall Street Journal* and NBC News, for instance, found that many Americans express alarm about the Federal deficit, but resist any attempt to reduce Federal spending. The poll found that 86 per cent oppose reductions in Medicare benefits, which the President had proposed in his budget message, while 69 per cent oppose spending reductions on social programs for the poor. Half oppose the President's elimination of Federal subsidies to local mass transit systems. But they also oppose proposals to boost Federal taxation. Some 56 per cent oppose income tax boosts.[2]

Many Americans deny that, at the present, the deficit has a direct impact on their lives; but they are convinced that spending cuts and higher taxes would. The latter are real, but the value of balancing the budget is very abstract. Spending cuts could adversely affect some 90 million Americans who depend on government dollars for support. There are more than 35 million elderly who receive old-age social security, railroad, veterans, Federal civil service, and state and local retirement benefits, some 9 million recipients of survivor benefits, 6 million beneficiaries of supplemental income programs, 6 million unemployed individuals and their dependents, and finally, some 2 million individuals in the armed services and more than 16 million government employees who in turn support some 20 million dependents.[3]

Expressed in terms of Federal assistance for those deemed poor and needy, the federal government, through Medicaid and Medicare, pays for the medical care of more than 50 million aged, disabled, and needy Americans. It subsidizes approximately 95 million meals per day,



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

or 14 per cent of all meals served, through the food stamp program, child nutrition program, nutrition programs for the elderly, and commodity distribution programs. It provides training for almost one million low-income disadvantaged people and pays housing assistance to some 3.4 million American households. And it offers some 6.9 million post-secondary awards or loans to students and their parents through student assistance programs.

Many Americans undoubtedly would view deficit spending in a different light if its dire consequences were more clearly visible. If it were accompanied by rampant inflation or deep depression with mass unemployment, they would disapprove it immediately. Surely, they would not tolerate it as a deliberate policy if the harm it inflicts on nearly every voter, including the direct beneficiaries of the deficit largesse, were to exceed visibly the benefits of the spending.

But the harmful consequences of deficit spending are not clearly visible in the haze of popular notions and prejudices. It takes economic knowledge and logical reasoning to perceive that deficit spending consumes economic wealth and substance and mortgages the future, that it is a potent prescription for stagnation and poverty, an open invitation to monetary inflation and depreciation, and a free-for-all for social and political conflicts. Moreover, the perception tends to be clouded by the enticements of the benefit programs. Ninety million beneficiaries of spending programs are likely to question the validity of economic knowledge and the cogency of economic reasoning as long as they expect to gain from the largesse.

Congressional Profligacy

To most Americans the day of reckoning seems far off; deficit reduction may be a vaguely moral imperative that lacks financial significance. To most members of the U.S. Congress who incur the deficits and pyramid the debt, the issue is purely materialistic. Unaware of any questions of morality of deficits and debts, they are guided by political pragmatism aimed at "solving problems," especially the problem of getting re-elected and advancing their own political careers.

In June 1982, President Reagan created a commission to conduct a "private sector survey on cost control" of the executive branch of the federal government. The commission, named after its chairman, New York businessman J. Peter Grace, conducted a comprehensive study of government efficiency in order to identify —and hopefully eliminate—wasteful spending in government. It soon concluded that much of the responsibility for excessive spending lies not with the Administration but with Congress.

In a scintillating tract called *Pork Barrel*, Randall Fitzgerald and Gerald Lipson, two of Peter Grace's associates on the Commission, tell the unexpurgated Grace Commission story.[4] In more than one hundred examples of pork barreling by members of the Congress, almost evenly divided between Democrats and Republicans, liberals and conservatives, the authors illustrate the appetite for political spending. Most politicians live by a "parochial imperative" that elevates local interests over all others. In particular, it makes the members of Congress bring new Federal spending into their districts no matter how dubious and unnecessary it may be; they are to secure subsidies to any and all economic interests in their districts and prevent changes or reductions in the size of Federal spending by Federal facilities at the local level; they are to prevent competitive bidding procedures if this benefits local interests, and bring about the cancellation of state and local liabilities to the federal government when they become burdensome.[5]

Most members of Congress living by the "parochial imperative" are guided by erroneous notions and doctrines. They act under the misconception that local interests, as they see them, coincide with the national interest. To promote trade, commerce, and industry in their district, they are convinced, is to promote economic life in all other districts. When one district is made to prosper, the prosperity of all is enhanced.

But such reasoning is rather spurious; it ignores the fact that the favors granted in one district demand material sacrifices from people in all districts. The entitlements of some individuals must ultimately be matched by tax exactions from other individuals. Parochial politicians plead the case for "special local interest"

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

which differs fundamentally from "local interest properly understood." The former always necessitates government coercion to confer benefits and grant privileges to some people and withhold them from others. The "properly understood local interest" calls for no coercion by police, judges, and tax collectors; it actually reduces coercion and restraint and concurs with the national interest, even the international interest. It calls for expansion of the sphere of individual freedom to satisfy human wants and sustain human life, the freedom that embodies the right to the fruits of individual effort, which is the quintessence of private property.

To justify benefits and privileges, parochial politicians argue like the talkative highwayman who lectures his victims about the benefits of more equitable distribution that is to benefit everyone, even his victims. He ignores the fact that the highwayman principle, when practiced by everyone, would render economic production rather hazardous and, in the end, gravely jeopardize human existence.

Micromanagement

To serve the parochial imperative, legislators seek to expand the scope of their concern for administrative activities to include minute details of operations. They practice "micromanagement," which is congressional involvement in day-to-day management decisions. Congress may direct executive branch agencies to employ more labor than the agency managers say they need, to place labor in locations where they are not needed, to prevent changes in the size or location of offices and agencies. Congress may order the Veterans Administration, with more than 200,000 employees, to seek congressional approval for any reorganization affecting as few as three employees. Individual senators and congressmen may obtain special legislation that takes funds from the public treasury to grant favors to this group or that faction, who in turn promise re-election.

Any administrative effort to streamline and modernize the government's organizational structures is met by persistent congressional resistance, which keeps most operations obsolete, inefficient, and costly. Members of Congress usually intervene to thwart or delay structural reorganization. They in turn are pressured and made to block the way by government employees directly affected by reorganization. Waxing on human and financial losses which reorganization and consolidation would inflict on them, employees and their unions exert direct pressure through protest marches, letters, and telephone calls, and generate indirect pressure enlisting the support and influence of congressional staff that often depends on them for information, advice, and help.

It is the function of boards of directors of private corporations to set basic rules and policies. To set aside or waive the rules in order to benefit friends or associates is gross nepotism and corruption that may call for indictment and punishment. The U.S. Congress writes the rules for administrative operations, but all too often turns around and makes exceptions to the rules. Influential members of Congress usually exercise the very kind of favoritism which the rules were supposed to prevent. They write program rules, and immediately make exceptions for friends.

Basic principles of sound managment require executives to have the authority to use labor most effectively, to assign it in the service of customers, and change assignments to meet changing business needs. In private enterprise, this authority is a basic ingredient of efficient management. In the U.S. Government, Congress frequently negates this management authority in order to protect Federal employees against the kinds of change and challenge which employees of private corporations face all the time. Many members of Congress act like union stewards whose primary concern is the convenience of their members. But, in contrast to union stewards, legislators have the clout to turn their concerns into law.

Eugene McCarthy, long-time U.S. Senator from Minnesota, explains congressional profligacy in terms of a "double standard" of economic rationale—one standard at home, and another for the rest of the country. Members of Congress readily declare their great commitments to frugality and austerity in all matters that are of no visible account to their constituents, but unflinchingly champion the special interests in their states or districts. The local

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

press, radio, and television, even the Chamber of Commerce, and especially the member's political opponents adhere to the same double standard. They expect members of Congress to wax eloquent about frugality and then give tangible evidence of their effectiveness by having the federal government build a new post office, a government office building, a veterans' hospital, housing for the elderly, more roads, bridges, etc. But nothing reveals the double standard more clearly, according to Senator McCarthy, than a water project, a dam, lock, or canal, that may be named after the politician who sponsored it. Even the most frugal fiscal conservative who says "no" to many transfer programs may readily spend billions of dollars for the illusion of immortality through enduring government projects named after him.[6]

Running a close second in congressional popularity are military installations. They enjoy popular support on a variety of grounds: national security, national tradition and history, and regional economic impact. The Department of Defense is spending more than $20 billion a year to operate some 5,000 military installations and properties, many of which have become unnecessary, inefficient, or uneconomical. Every state and more than one-half of all congressional districts contain or border on military bases and installations that bring generous payrolls and lucrative procurements. They yield income and wealth to the districts although the posts may be visible reminders of the Civil War, or even the War of 1812. They may be military anomalies, well suited for military museums, but they continue to withstand all attempts at closing them.

Executive Irresponsibility

Like Congress, the executive branch has its own pork barrel projects. After all, it consists of politicians who come to power by the same imperative that brings the members of Congress to Washington. Politicians in power broaden and extend the imperative to include the whole nation, which costs billions of dollars. A congressman may deem himself efficient and successful to land a one-million dollar government contract for his friends in the district. But the President of the United States, as the November election approaches, may propose Federal expenditures costing tens of billions of dollars.

During the 1964 election Lyndon B. Johnson introduced his Great Society by declaring "war on poverty" and promising to eradicate it within this century. When elected by a landslide, he built his particular pork barrel with government projects benefiting his followers. He sponsored the Economic Opportunity Act of 1964, established the Office of Economic Opportunity, and introduced many new antipoverty programs. The landmarks of his Great Society are easy to identify: the Social Security Amendments of 1965, creating health insurance programs for the aged and needy through Medicare and Medicaid; the Elementary and Secondary Education Act of 1965, which constituted the first general school aid legislation, targeting money to schools with poor children; the Housing and Urban Development Act of 1968, which meant to help low- and moderate-income families buy their own homes; and the Civil Rights Acts of 1964, 1965, and 1968, prohibiting racial discrimination in schools, employment, housing, and public accommodations.

In 1972 President Nixon sought to imitate his predecessor through increases in Social Security, involving many billions of dollars. It is a clear example of both the Congress and the Executive rolling the pork barrel back and forth and claiming full credit in the end. As the November 1972 election approached, the President recommended a 5 per cent boost in Social Security benefits, which would sit well with elderly voters. Not to be outdone, the Democratic opposition demanded a 10 per cent boost, which the President threatened to veto for being fiscally irresponsible. To outmaneuver and embarrass the President, Congress finally enacted a 20 per cent raise and ordered it to commence immediately. Surely, the President was expected to veto a 20 per cent raise, having threatened to veto any increase above 5 per cent. But instead, he readily signed the ploy into law and informed all recipients, in a note accompanying Social Security checks, that he had signed the bill. Both the President and members of Congress now claimed credit for the payments.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

A favorite executive stratagem designed to obtain an advantage over one's political opponents is to sponsor new spending on grounds that one is merely "heading off" a congressional move to increase the spending. The President may double and triple Federal outlays for agricultural price supports, saying that he is merely heading off a congressional move to boost the support prices even further. Congress in turn may try to head off the President. Each tries to outdo the other in currying the favors of special-interest voters.

Bureaucratic Management

The spendthrifts of Congress and the profligates in the Executive receive encouragement and support from an army of civil servants who actually do the spending. They are the regulars of the administrative organization, the bureaucracy which is ever eager to spend more money.

In business, profit-and-loss calculations limit a businessman's temptations to expand his services. Business accounting, which ascertains success or failure of an operation, reveals the desirability of capital expenditures. In particular, it discloses the return from an investment in relation to the capital outlay. When the costs of an outlay exceed its return, the businessman must retrench and restrain his ambition. Failure to do so would invite losses, which would cast serious doubt on his managerial ability.

But a government agency or bureau faces no such limitation. Its services, no matter how valuable they may be, have no market price and, therefore, cannot be subjected to profit-and-loss accounting. They are open-ended unless they are restrained by precise rules and regulations, that is, bureaucratic directives. Lest government agents become irresponsible spenders of the taxpayers' money, they need detailed instructions about every aspect of their operations. Thus, forever restrained by rules and regulations, they are anxiously pleading for more authority and more money.[7]

The Federal budget is permeated by the notions and doctrines of "higher" moral objectives. But in workaday, prosaic terminology, it seeks to favor some people at the expense of others. It is a plan of action estimating the costs of political transfer, and a public declaration proclaiming the politics of deficit spending. As such it reveals much of both the theory and practice of public morality. □

1. *Budget of the United States Government*, Fiscal Year 1987, pp. 6e-45.
2. *The Wall Street Journal*, February 11, 1986, pp. 1, 27.
3. *Facts and Figures on Government Finance*, 23rd ed. (Washington, D.C.: Tax Foundation, Inc., 1986). p. a25.
4. Randall Fitzgerald and Gerald Lipson, *Pork Barrel*, (Washington, D.C.: Cato Institute, 1984).
5. *Ibid.*, p. xviii.
6. Foreword to *Pork Barrel*, p. viii.
7. Ludwig von Mises, *Bureaucracy*, 1944 (Cedar Falls, IA: Center for Futures Education, 1983).

IDEAS ON LIBERTY

Needed: A Balanced Budget

One of the privileges of a rich man is that he can afford to be foolish much longer than a poor man. And this is the situation of the United States. The financial policy of the United States is very bad and is getting worse. Perhaps the United States can afford to be foolish a bit longer than some other countries. . . .

Inflation is a policy. And a policy can be changed. Therefore, there is no reason to give in to inflation. If one regards inflation as an evil, then one has to stop inflating. One has to balance the budget of the government. Of course, public opinion must support this; the intellectuals must help the people to understand. Given the support of public opinion, it is certainly possible for the people's elected representatives to abandon the policy of inflation.

—LUDWIG VON MISES
Economic Policy

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

A REVIEWER'S NOTEBOOK

The Capitalist Revolution

by John Chamberlain

In his *The Capitalist Revolution: Fifty Propositions About Prosperity, Equality and Liberty* (New York: Basic Books, 262 pp., $17.95), sociologist Peter Berger provides his own synoptic review in five pages of his chapter ten. Since the "fifty propositions" are in themselves often redundant, it points to a deficiency in the Berger method of presentation.

Berger has a tendency to labor his analyses. But the good things in his book are practically innumerable. So what if his Proposition One (that "industrial capitalism has generated the greatest productive power in human history") is practically the same as his Proposition Five (that "advanced industrial capitalism has generated, and continues to generate, the highest standard of living for large masses of people in human history")? Berger's intention here is to link the past and future tenses of a general proposition, which is certainly helpful, even though the bit about the "large masses" is implicit in Proposition One. As Isabel Paterson once said, "Standard Oil didn't produce kerosene to pour it down the sink."

Berger's method is relentlessly empirical. He claims that he has no *a priori* intention of disparaging socialism or any of its "mixed economy" variations that are more socialistic than capitalistic. What he wants to do is to study the movements of men in making their livings. If the empirical evidence is that men do better for themselves in the aggregate under conditions of freedom, then so be it.

The Berger method reminds me of my wife's exposition of Doris Humphrey's modern dance technique, which is to study the natural movement of people ("walking, running, jumping") to overcome the forces of gravity. Humphrey spoke of the "arc between two deaths," meaning that life—and the dance—consists of avoiding total immobility at one extreme and a frenzy of unsustainable motion at the other. It was "fall and recovery" with Humphrey.

To keep the human body in condition to live in Isaac Newton's gravity-bound world, man has to provide himself with food, clothing, and shelter. So what is more natural than to appropriate raw materials from nature to fill one's stomach and put a roof over one's head? The act of appropriation from nature creates private property. Freedom of exchange follows when one has appropriated more than is necessary for simple existence. This is Robinson Crusoe economics. Though men have departed from it for periods of time in which human predators intervene, insisting at spear point or gunpoint that individuals ask permission for access to the fruits of the earth, the natural tendency of human beings to revert to private ownership and free exchange reasserts itself.

Berger explains the simplicities of natural movement very well. He also does well with the complications that come with the development of modern technology. These may have introduced a sharp increase in income and wealth distribution that favored a few people at the outset of the industrial revolution, but when the Napoleonic wars were over and world trade resumed (with Scandinavian lumber moving into Britain for houses) there was a sharp decline in inequalities.

It is at this point that Berger introduces the concept of "modernization." What the capitalist countries had developed could, with import help, be imitated by socialist and Third World societies. It could also pay, in taxes and inflationary money issues, for an increasing amount of welfare at home. (The complication

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

here is that welfare "transfers" dampen the willingness of the producing members of society to work.)

Berger does not deny that socialism "works" after a fashion. But it is dependent on importing the results of the "bourgeois" cultural components of "activism, rational innovativeness, and self-discipline."

British Individualism

In his byplay Berger introduces several other concepts than the one of "modernization." The English of pre- and post-Magna Carta times were feudalists, taking title to their lands from a Plantagenet king, but they were "individualists," too. They could afford to be because they were separated from continental Europe by water which made invasions difficult. (William the Conqueror, the last man to get away with an invasion of Britain, had considerable luck on his side.)

The individualism of the British set the stage for the "glorious revolution" of 1688, the year in which John Locke codified the natural rights of men to life, liberty, and property, meanwhile asserting that property originated in the "mixing" of one's labor with the offerings of nature.

Berger is especially interested in what he calls "a second case." This is the development of capitalism in East Asia after World War II. The East Asian "case," he says, "disconfirms" the old thesis that early economic growth under modern capitalism must "necessarily" increase income inequality. The East Asian case has also "falsified" the thesis that "a high degree of state intervention is incompatible with successful capitalist development." What Berger seems to be saying here is that the Japanese decided to go capitalist by edict. He gets himself out of some hot water by adding that "the values of individual autonomy are undermining East Asian communalism."

Socialism still has a mythic appeal, particularly to so-called intellectuals who want to be part of a permission-granting elite. Schumpeter thought this might do capitalism in. But it isn't working out that way. The "neo-capitalists" among the intellectuals are increasing night and day. □

Will It Liberate? Liberation Theology and The Liberal Society
by Michael Novak

Paulist Press, 997 MacArthur Blvd., Mahwah, NJ 07430 · 1986 · 320 pages, $14.95 cloth

Reviewed by John K. Williams

Michael Novak's *Will It Liberate?* is a volume all men and women committed to liberty should purchase and read. The work's subtitle—*Liberation Theology and The Liberal Society*—might deter potential readers for whom theology holds little appeal, but such a reaction would be sadly shortsighted. It would deprive them of an invaluable resource in the ongoing struggle for a free market economy in a free society. Novak in this work addresses what, in both secular and religious circles, is perhaps the most strident contemporary criticism of economic and individual liberty.

The phrase "trickle-down economics" refers to a caricature of free market economics. The phrase "trickle-down *mythology*," however, accurately describes a familiar and important phenomenon. Ideas conceived in academic heights "trickle-down" to more earthy levels, taking simplified form in slogans scrawled upon walls and in allegedly self-evident truths assumed by journalists, television and radio commentators, and indeed by "ordinary" people.

One such idea goes back to the Austrian Marxist Rudolf Hilferding, who in 1906 penned a volume entitled *Finanzkapital*. The central thesis of this work also informs Lenin's infamous 1906 essay *Imperialism: The Highest Stage of Capitalism,* and since this volume's appearance, has been an essential component of orthodox Marxism-Leninism.

Crudely, it is claimed that the abundance enjoyed in developed nations was and is acquired by the systematic exploitation of developing nations. The so-called "North" has prospered and continues to prosper by plundering the so-called "South." "They" are the victims of exploitation; "we" are the exploiting imperialists.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

This claim has permeated Western thought. It has found popular expression in countless newspaper articles and has been disseminated from innumerable pulpits. Contemporary "political theology," represented by the writings of Jürgen Moltmann and Johannes Metz, and "liberation theology," typified by the many volumes penned by Latin American thinkers such as Gustavo Gutierrez and Juan Luis Segundo, are characterized by an uncritical acceptance of the myth of "neo-colonialism." Little matter that Lenin's original statement of the theory is widely discredited in academic circles. The myth has "trickled down" to the multitude.

It is this myth which Michael Novak tackles head-on in his latest and, in this reviewer's opinion, most cogent volume. Whether readers typically meet this myth in its nakedly secular form, or more frequently encounter it dressed in religious garb, they will be grateful to Novak for his painstaking analysis and decisive refutation of beliefs uncritically accepted by so many critics of the free society.

Chapters 7 ("What Is Dependency? Who Are The Poor?"), 8 ("What Do They Mean By Socialism?"), and 9 ("What Is The Inner Will Of Socialism?") display the awesome factual knowledge and psychological acuity Novak brings to his writing. Succinctly but accurately, Novak summarizes the massive literature which grew up in the 1960s and 1970s dealing with the idea of "dependency theory," a contemporary variant on the old Leninist, neo-colonial theme. He clears the tangled linguistic undergrowth characterizing much confused and confusing arguments about poverty. He documents the changing meanings ascribed to "socialism" by men and women who seem more committed to a word than to any specific economic or political objectives. And he isolates with almost embarrassing precision the drives that characterize the pro-socialist mentality. These three chapters alone are worth the price of the book.

Will It Liberate? is not without its flaws. While Novak displays in this volume a greater appreciation of classical liberalism and Austrian economics than was the case in either *The Spirit of Democratic Capitalism* or *Freedom With Justice,* he quotes with approval Pope John Paul II's condemnation of "unfettered capitalism." He advocates sufficient intervention to establish a modest, welfarist "safety net" yet, although drawing on the insights of Ludwig von Mises and Israel Kirzner, does not consider the economic case against such intervention. More significantly, he does not note the *moral* considerations which lead many classical liberals to oppose any form of coerced wealth or income transfers.

Similarly, Novak carefully and correctly distinguishes a free market economy—in his terminology, a "democratic capitalist economy"—from many states popularly described as "capitalist," such as Mexico. Yet he later seemingly ignores that distinction when discussing a case of impropriety by a major company, and justifying governmental regulation of the market by reference to that case (pages 61-62). If the facts are as Novak describes them, the company in question conspired with the means of coercion to get what it wanted the easy way—by short-circuiting the market process.

It would be singularly unfortunate, however, if what many of us would regard as lapses from a principled classical liberalism led us to ignore Novak's volume. Novak has become a leading critic of socialist thought, meeting with and challenging quasi-Marxian theologians in Latin America and soft-socialist bishops in North America. He is imaginatively forging links between traditional Catholic social ethics and the classical liberal vision. He has provided students of liberty with valuable data which falsifies significant claims of both the secular and religious Left, and brings to his exploration of the classical liberal tradition an enthusiasm which proves infectious.

I unreservedly recommend that readers purchase this volume. Indeed, I urge those who can afford to do so to purchase a second copy and give it to a minister or priest enthused by or sympathetic to "liberation theology." If Michael Novak is unable to sway the thinking of such theologians, I doubt if anyone can. □

(The Reverend Dr. John K. Williams is a freelance writer and lecturer in North Melbourne, Victoria, Australia.)

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Join us in the pursuit of an ideal.

The ideal of freedom is to let anyone do anything he pleases, as long as his behavior is peaceful, with government empowered to keep the peace—and nothing more. An ideal objective, true, but one that must be pursued if we would halt the continuing descent of our society from bad to worse. Nothing short of this will suffice. And unless we fully understand the ideal—and what makes for its attainment—we'll tend to settle for powerless, futile little pushes and shoves that yield no more than a false sense of something done.

—Leonard E. Read

Where have you been? If you've just discovered THE FREEMAN and have found some helpful ideas, you may want to see our studies regularly. If so, just use the form below to reserve your place on our mailing list. (Any individual in the United States is added at his request. For foreign delivery, extra mailing costs require a charge of $10.00 a year.)

Where are you now? If you're already on the mailing list, but have a new address, please use this form to let us know of the change and to minimize any delays in delivery.

. . . . . .

Sorry, this is not a mailing card: please enclose in a stamped envelope.

The Foundation for Economic Education
Irvington-on-Hudson, New York 10533
Telephone: (914) 591-7230

THE FREEMAN
IDEAS ON LIBERTY

☐ Please add my name to receive THE FREEMAN, a monthly study journal of free market, private property, limited government ideas and ideals; plus NOTES FROM FEE, a 4-pager devoted to libertarian methods, issued every other month.

☐ Please change my address, as follows.

Name (Please print)

Street

City State

Zip Code

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"Let us be diverted by none of these sophistical contrivances wherewith we are so industriously plied and belabored—contrivances such as groping for some middle ground between right and wrong; vain as the search for a man who should be neither a living nor a dead man."

—ABRAHAM LINCOLN

THE FOUNDATION FOR
ECONOMIC EDUCATION, INC.
30 South Broadway
Irvington-on-Hudson, NY 10533

Non-profit organization
U.S. POSTAGE
PAID
Permit No. 4

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED